## *Step 4 - Diversify fully within financial investment asset classes*

**Category : Financial Planning -- 10 Personal Steps in the Right Direction**

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Diversify fully within asset classesStep 4 of 10 Financial Planning Steps in the Right DirectionCLICK HERE TO READ *THE SKILLED INVESTOR's* OTHER ARTICLES ABOUT THESE "10 FINANCIAL PLANNING STEPS IN THE RIGHT DIRECTION Diversification is genuinely an investment “free lunch,” and it is a key contributor to improved investment risk management. Diversification has become an axiom of personal investing, because the specific risks of businesses and other investment entities can be reduced or eliminated from a portfolio without reducing expected returns. A highly diversified portfolio is an absolute investment necessity. Increased diversification reduces portfolio risk without a corresponding reduction in expected portfolio returns. Diversification is genuinely an investment “free lunch,” and it is a key contributor to improved investment risk management. (See: Why is diversification valuable to individual investors? and What is the cost to individual investors of sub-optimal portfolio diversification?)  Diversification has become an axiom of personal investing, because the specific risks of businesses and other investment entities can be reduced or eliminated from a portfolio without reducing expected returns. Through investments in broad-based index mutual funds and exchange-traded funds, diversification is relatively easy and inexpensive to achieve. Attempting to become broadly diversified through the self-assembly of a portfolio of a large number of individual securities is far more difficult and costly. Portfolio self-assembly is more likely to result in higher risk with returns that lag the market. A significant portion of a portfolio may sometimes become concentrated in a single investment, which dramatically increases the overall risk of a personal portfolio. While generally undesirable, there sometimes are unavoidable reasons for investment concentration, such as owning a private business or being a key member of the management team who is constrained by an employment agreement with the company. In such circumstances, he should seek expert guidance on possible ways to mitigate the associated risk.  However, for 99+% of investors there is absolutely no good reason to maintain a high level of concentration in an individual security. Immediate steps should be taken to reduce the exposure. How many failed public companies like Enron and WorldCom do investors need to see crash and burn, before they realize that excessive concentration does not pay and can lead to significant personal financial peril?See these other investment portfolio diversification articles: ->"Investment securities markets do not pay you for the risks of holding individual common stocks and bonds" ->“Why is diversification valuable to individual investors?” ->“What is a well-diversified portfolio?” ->“Is the average individual investor's portfolio well diversified?” ->“Can a limited number of equities provide complete portfolio diversification?” ->“How many common stocks are needed for a well-diversified portfolio?” ->"What is the cost to individual investors of sub-optimal portfolio diversification?" ->“How do changes in common stock price volatility affect diversification?” ->“How does the size of the common stock equity premium affect diversification?” ->“How many mutual funds are needed for a well-diversified portfolio? – evidence” ->"How many mutual funds are needed for a well-diversified portfolio? – a commentary"