

The Real Meaning of Diversification In Investing

In the world of investing, we've all heard the phrase, "Don't put all your eggs in one basket." It's solid advice that emphasizes the importance of diversifying your investments. Unfortunately, some people misinterpret this wisdom to mean they should avoid consolidating their investment accounts and keep their money spread across multiple financial institutions, often working with several different financial advisors.

However, when financial professionals talk about diversification, they're referring to diversifying your investment assets, not your accounts. There's a big difference between the two, and confusing them could hurt your financial future.

Scattered accounts may affect costs, paperwork and advice. When your assets are spread among multiple financial institutions, you could face several drawbacks. First, you're likely paying more in fees than necessary. Multiple providers often mean multiple account fees, transaction costs and mutual fund expenses that can add up quickly. Generally, the more assets you have with one financial provider, the more opportunities you have for reducing or eliminating these costs.

Managing scattered accounts also could create a paperwork nightmare. You'll receive multiple monthly statements and numerous tax forms, making it much harder to see the big picture of your financial health. This complexity can lead to missed opportunities and poor decision-making.

Perhaps most important, working with multiple financial advisors may result in conflicting advice and duplicated investment strategies. Without a comprehensive view of your entire portfolio, each financial advisor may recommend investments that don't work well together, potentially delaying your progress toward reaching financial goals.

There's strength in consolidation. Consolidating your accounts with a single financial advisor offers numerous benefits. You'll have opportunities to develop a closer, more comprehensive relationship with someone who understands your complete financial picture. This financial

advisor can provide informed guidance and help eliminate the conflicting advice that may come from working with multiple professionals.

Consolidation also makes it easier to implement a well-diversified portfolio that fits your level of risk tolerance. When all your investments are in one place, you can see exactly how your assets are allocated and make strategic adjustments as needed. It becomes simpler to gauge aggregate investment returns, assess your portfolio assets and rebalance when necessary.

For retirement planning, consolidation can be especially valuable. IRAs at different providers can be consolidated at any time without tax consequences when assets are transferred directly between providers. When you retire, your 401(k) can typically be rolled over into an IRA, streamlining your retirement income strategy.

True diversification still matters. While consolidating accounts makes sense, diversifying your actual investments remains crucial. A good financial advisor will help you carefully build a balanced mix of stocks and bonds appropriate for your age and goals. As you approach retirement, this typically means shifting toward a more balanced portfolio that still provides growth to combat inflation while offering stability and income.

Diversification goes beyond just stocks and bonds. Take bonds, for instance: You can diversify by bond type (municipal, corporate and government), bond maturity (through a strategy called "laddering") and bond sector to spread risk across different parts of the economy.

How to get started. If your retirement savings and investment accounts are scattered among various financial institutions, consider consolidating everything with one trusted financial advisor. The streamlined record-keeping, potential for reduced fees and comprehensive financial guidance can help improve your wealth-building potential while making your financial life simpler to manage.

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