Slump shows it makes sense to diversify

Investment: Don't rely on risky stocks strategy

ADVICE: Barry O'Neill urges investors to spread their money over more than one strategy

BY BARRY O'NEILL

The North Sea oil and gas industry downturn is a timely reminder of the importance of diversifying investment portfolios.

Diversification is one of the cornerstones of a successful investment strategy.

The principle is often explained by the adage of not having all your eggs in one basket, but there's a bit more to it than that.

The recent dramatic slump in oil prices has impacted many people in the north-east, not least in terms of a slowdown in business and, in some cases, redundancies.

For some, these tough times are compounded by the fact they have failed to heed the obvious benefits of diversification.

I have seen a number of investment portfolios heavily overweight in oil and gas-related stocks, partly in an attempt to uncover the next BP or Shell and partly due to local familiarity with the sector.

The UK stock market lagged many international markets last year, and investors with a portfolio concentrated on London-listed oil and gas-related stocks did even worse.

> **"Having all your money in shares is very risky"**

If your business or income from employment is under pressure as a result of the oil price downturn, the last thing you want is to have to worry about your investment portfolio as well.

By contrast, the return from the world's developed stock markets as a whole was very positive at just under 10% for the same period.

So, spreading your money across hundreds or even thousands of companies is one way to protect yourself against particular companies, sectors, or even countries disappointing.

Another important aspect is to spread your money widely across different types of investments, or asset classes as they are commonly known.

If you own shares in a UK or overseas business, you have exposure to one broad asset class and risk losing your money if that company fails. Having all of your money in shares is a very risky strategy unless you have a very long-term time outlook and can tolerate significant volatility in the value of your holdings.

Mixing shares with other asset classes, such as fixed interest securities and property, helps to ensure your portfolio is properly diversified and not exposed to the concentrated risk of just one asset category.

Investors with such diversification in their portfolios generally feel much more relaxed about their prospects. They are also usually less fearful of significant market crashes than their high-octane, pure equity-investing counterparts.

If you are not sure exactly how diversified your portfolio is then it's time to check. Missing out on the only free lunch for investors just doesn't make any sense.

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