OAST & HOOK

# OAST & HOOK NEWS

August 7, 2009
Volume 16 Issue 32

Offices in
Elizabeth City, Portsmouth,
and Virginia Beach
Tel: 757-399-7506
Tel: 252-722-2890
Fax: 757-397-1267
Web: www.oasthook.com



INSIDE THIS ISSUE



Editor
Sandra L. Smith,
Certified Elder Law Attorney

## ARE YOUR ASSETS REALLY DIVERSIFIED?
## BY ADAM M. STEINER, CFP®

You've heard the old investment adage, "Don't put all your eggs in one basket." It's good advice. A diversified portfolio should be at the core of any well-planned investment strategy. While a worthy goal at any age, it's especially desirable as your net worth grows over the years.

The basic purpose of diversification is to reduce your portfolio risk and volatility. It's primarily a defensive type of investment policy. Depending on your investment goals and tolerance for risk, your strategy may emphasize one type of investment over another. But overall, your portfolio should be diversified. That's because no single type of investment performs best under all economic conditions. A diversified portfolio is capable of weathering varying economic cycles and improving the trade-off between risk of loss and potential return. Of course, diversification cannot entirely eliminate the risk of investment losses or guarantee a profitable investment return. Diversification lowers the risk of a portfolio.

**Forms of Diversification.** An investment portfolio consisting of 20 different construction industry stocks is not diversified. Diversification means dividing your funds among different classes of assets, such as stocks, bonds, real estate, savings accounts, and tangible assets. For instance, suppose your portfolio consisted entirely of bonds. Your money would be at significant risk if interest rates rose since bond prices generally fall when rates go up.

It's also important to diversify by owning several stocks in different industries. Suppose you held just 1,000 shares of a major company's stock from December 31, 1999, through December 30, 2003, and you suffered a loss of $40 per share when the stock fell from 100 to 60. A diversified portfolio consisting of many different stocks in various sectors may have cushioned the blow of the loss.

Prudent investors managing their own portfolios might diversify their holdings by selecting some stocks for the rising earnings or accelerating "growth" potential while buying other stocks because they offer "value" by temporarily being out of favor. In addition, an investor may buy individual securities for other reasons, such as income or a certain situation in the marketplace. An alternative to selecting and managing individual stocks and bonds is to invest in mutual funds. Some mutual funds offer diversification by holding many securities within the portfolio; however, some other funds may not be diversified across industries or asset classes and may focus on a single sector. Mutual funds offer several other features, including:

- Shareholders receive periodic reports reviewing the fund's results and performance.
- Funds are managed by full-time professionals.
- Fund families allow investors to allocate investment dollars among a combination of funds with varying investment objectives.
- Mutual funds may provide immediate diversification.

Diversification also means not tying up all your funds in long-term investments. You will need to keep a certain amount easily accessible – that is, in money-market accounts, savings accounts, or short-term certificates of deposit (CDs) – for on-going expenses, emergency needs, and short-term goals, such as saving to buy a car or pay taxes. And through dollar-cost averaging, a process of buying stocks and bonds from time to time instead of all at once, you can spread the risk over both good and bad markets. Using the dollar-cost averaging investment method involves continuous investment in securities regardless of fluctuating price levels of securities. Therefore, investors should consider their financial ability to continue purchasing through periods of fluctuating price levels. Dollar cost averaging does not ensure a profit and does not protect against a loss in declining markets. Diversification is also important because CDs are FDIC-insured and typically offer a fixed rate of return while investments like stocks and bonds are not FDIC-insured and their value will fluctuate with current market conditions.

**Sample Portfolio.** Your specific investment decisions will depend on several factors: your age, tax bracket, risk tolerance, liquidity needs, investment time horizon, and investment goals. In general, however, a well-diversified portfolio might include:

- Cash Reserves for short-term needs – checking accounts, money-market accounts, savings accounts and shorter-term CDs.
- Longer-term, taxable investments that are relatively liquid, such as:
  - Stocks – common or preferred
  - Bonds – U.S. Government, corporate
  - Mutual Funds – bond funds, growth funds, balanced funds, international funds
- Tax deferred and tax free investments, such as:
  - Annuities – fixed and variable
  - Qualified Plans – 401(k), 403(b), IRAs, SEPs, SARSEPs
  - Municipal bond funds
- Real estate – commercial, residential
- Tangible asset exposure through mutual funds – precious metals funds, natural resources funds

You may want to consult an advisor regarding designing a portfolio that is right for you and your time frame, risk tolerance and potential return on investment.

**Diversify Beyond Investments**. Diversification alone may not be sufficient to protect your investments. By taking a broader view, a financial planning strategy can put safeguards in place to help protect your family and you.

For instance, purchasing disability income insurance provides income protection if you become disabled. Life insurance is another form of protection. It can help preserve your estate assets and reduce the risk that a disaster could wipe out your family's standard of living. Life insurance can also provide the necessary cash for your survivors to pay estate taxes and other expenses, or to carry on a family-owned business.

A properly planned estate can also be a part of your overall strategy. Simply having a will may not be enough. You may need to coordinate your will with trusts for your children, life insurance, and tax planning. Estate planning can help preserve and direct the distribution of your assets after your death.

A diversified financial planning strategy will not eliminate risk or guarantee success. But it does offer a sound approach to help accumulate, preserve, and protect your assets, reduce risk, and potentially grow assets over time. Talk with a qualified professional about how to put an effective financial planning strategy in place.

The attorneys at Oast & Hook assist clients with their estate, financial, insurance, long-term care, veterans' benefits and special needs planning issues.

*Adam M. Steiner, CFP®, is a registered representative of Lincoln Financial Securities Corporation, member SIPC, (295 Bendix Road, Suite 230, Virginia Beach, Virginia 23452), offering insurance through Lincoln affiliates and other fine companies. This information should not be construed as legal or tax advice. You may want to consult a tax advisor regarding this information as it relates to your personal circumstances. This material was provided to you by Lincoln Financial Securities for its representatives and their clients.*

## Ask Allie

O&H: Allie, we've heard about a special project for cats left homeless due to foreclosure of their families' homes. Please tell us about it!

Allie: Sure! In 2007, a Cincinnati area artist named Robin Moro read an ad in a local newspaper seeking foster homes for 62 cats left behind when a homeowner was forced out of his home. The rescue groups involved were strapped for cash and resources. Ms. Moro first volunteered her services to make adoption posters, but she wanted to do more. She enlisted the help of her fellow artists from across the country, 32 well-known artists contributed 53 pieces of original artwork to the Foreclosure Cats Art Project. A local art gallery offered space to show the paintings for one month, and set up a silent auction that ended up raising $10,000. The small rescue organizations used the funds to provide healthcare for the rescued cats and to help with adoptions. The Animal Rescue Art project continues annually, and this year it included a student art contest to educate the public about spaying and neutering pets, as well as fostering and adopting animals. Items are available at www.animalrescueartproject.org, and details of the original project are at www.foreclosurecats.org. Time for me to go pose for some more photos for the Oast & Hook family!