

*This is one of 14 articles I ghostwrote for a client.*

### **The Power of Proper Diversification as Your Investment Strategy**

In my first article I talked about proper diversification and how to use it as a core strategy to build wealth. With the markets correcting now is a good time to apply that strategy to rebuilding your portfolio.

This is how I define Proper Diversification: "Spreading your money across one asset class (two at the most) selected based on your research of what sectors are doing well and then diversifying within each class."

Most mutual funds spread your funds across too many asset classes, while I adhere to the guidance of Warren Buffet by limiting my exposure to just a few.

For instance, in the past I've focused on uranium stocks and gold. While I still work with those assets, I've been focusing on real estate for the past few years and am diversifying more and more within that sector. For example, I've invested in residential developments for long term growth and in distressed properties for short term cash flow. Both investments involve real estate, but each meets a different need in my investment plan.

### **Leverage Your Research with Deep Diversification**

The reason diversification can build such a strong portfolio is that your research in one area can support multiple types of investing. Say you focus on gold. In your research you learn about the spot market for bullion and coins, you learn about junior and senior mining companies and their production cycles. You learn how gold is used in industries. You learn about global demand for gold, factors that affect that demand and how those demands affect prices. You learn about organizations associated with gold, about futures and ETFs. I could go on but my point is that by the time you are done with your research, you are an expert on gold.

Now when some gold related investment shows up on your radar, you are very capable of making a well-thought out decision. You are not swept along by hype or emotion. You have a good understanding of that industry and know the facts.

This is very different from how most investors are trained. Most investors are trained by mutual fund managers to spread their investments over many asset classes. The net result of this strategy is a portfolio that neither makes nor loses very much. This may be fine for someone who doesn't need to increase their wealth, but it is not fine for someone who wants to make money.

Right now the market is correcting after several months of volatility. Hopefully you've been keeping your head, waiting for the market to start behaving more rationally. We've seen some major industries crash and burn (the Automobile and Financial industries being the most dramatic.) Yet, this has also been a great time to see which industries have the potential to come out of the ashes. Now it's time to start making some decisions.

### **Pick Your Sector Then Your Instruments**

First, pick the industry sectors you expect to perform and research the industries that make up that sector. For instance, if you believe demand will rise for basic staples, research the companies that

provide those products, examine their sector, learn all you can about their supply pipelines and distribution. Learn about the demographics of the consumer.

Maybe transportation and shipping catch your interest. Maybe it's healthcare and pharmaceuticals. Maybe you're a tech geek with an eye on virtual storage. Or a Greenie eager to learn all things green. You might choose your focus based on a long-time personal interest or a new trend. Just make sure it is something that you can stay excited about because you are going to learn a lot about it!

Within each sector you can find might stocks, bonds, indexes, EFTs and more that relate to that industry. You might even decide to buy, build or partner in an actual business. The vehicles are varied, the industry is what matters.

If real estate is your vehicle of choice you have a very broad area to research. You could explore residential or commercial real estate. Single or multifamily, storage facilities or strip malls. You might lean toward investing in tax liens, mortgage notes or become a hard money investor. You might prefer to buy and hold property for future development. You might decide immediate cash flow is your priority and go for rentals. You might have IRA funds with plans to buy a vacation home or a primary residence.

### **You Don't Have to Be an Expert in Everything!**

Proper diversification lets you use overlapping research to invest in several instruments within your area of focus. Talk about a time saver! Plus, by immersing yourself in your industry, you develop subtle skills that aid your due diligence on prospective investments. You'll find yourself looking at reports and statistics with a much better understanding of which ones can ride out the market and which are likely to struggle.

I don't have a crystal ball and I can't predict what will happen over the next months, years or even decades, but I have some very good ideas about my selected areas because I've done extensive research over several years. Still, I don't invest in every opportunity that comes my way just because it is in my area of focus. I don't have to because I see the bigger picture. By becoming expert in a just few areas, the investments I do make have a much higher probability of performing as I expect.

I don't want to be an expert on everything in the world; just the areas I intend to invest in!

Summer is traditionally a slow time in the markets and this year we have more reasons than usual for the overall economy to be sluggish. Don't waste this opportunity. We are looking at bargain prices for some very good companies and I don't have to tell you real estate is the brass ring if you know what you're doing.

Take the time to select one industry that interests you and start doing your homework. Over just a few months you'll be surprised how savvy you can get. Then make proper diversification the cornerstone of your investment strategy.

One more thing - You don't have to invest all at once. A bit here and there is fine, just so you stick with your strategy. With patience and focus you can turn these current harsh times into your ticket to a prosperous future.