Keeping Eggs Safe

In describing how a wise man might act, Miguel Cervantes points out in his work, Don Quixote, that he "not venture all his eggs in one basket." It is likely that this proverb was already in use in the author's day, still the observation is valuable and can be applied in a variety of areas, including investing. If dollars were our analogous eggs, then different investments or places to deposit money would be our baskets. One way to protect your "nest egg" is to use a complementary set of investment baskets.

No One Thing

If you have the right mix of investments, no one thing will make you poor…….and usually no one thing will make you rich. Holding a diverse group of investments helps to reduce some of the fluctuations that you might otherwise experience if you were concentrated in just one or a couple of investments. Reduced fluctuations is one way to measure added safety for all of your eggs.

Different Baskets

A challenge for all of us is to understand the big and the small differences between investment baskets and how they might overlap or complement. While we inherently comprehend how stocks, bonds, bank deposits, real estate and gold bullion differ, we might have more difficulty fully comprehending how stock mutual fund "A" differs from fund "B." To get this principle right, the baskets need to be different enough and complementary enough to avoid them acting the same as "one basket."

Class Act

"Asset class" and "diversification" are part of the lingo for financial advisors. Stocks would be considered as one class of possible investments. Buying stock in several large US companies would be considered "more than one basket." Even better would be adding medium and small companies to the mix. Add stocks of international companies and you'll be adding some important and "diversified" baskets to your collection of "stock baskets." Each variation on the theme drills deeper into the broad asset class of "stocks" and adds vibrancy to this diversifying process.

The Recipe

It is the week of Thanksgiving. Many cooks throughout the land are pulling their best recipes and carefully selecting their ingredients in preparation to delight the taste buds of people they love. A good mix of investments, one that seeks to protect the money first and grow the money second, will likewise involve a good recipe of different asset classes and a careful selection of the specific investments to achieve the desired outcome.

Bottom Line

Don Quixote is perhaps best known for "tilting at windmills." My hope in this third in a series of five or six issues on investing principles, is to help you see the wind mills and avoid fighting imaginary giants. Worry over the risk of any one investment can be like confronting a giant for many people. The same investment stands the chance of looking more like a windmill when you view it in the context of being only one basket for just a few of your eggs.

Your Feedback

I would love feedback on this newsletter. Future issues may include a host of good ideas, insights, specific steps to take financially, life insights and of course "Wit and Wisdom". Most importantly, I'd like it to be of value to you and to encourage an exchange of great ideas and insights. Please send your feedback to:

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