

All Over the Map

You seek to protect your assets by allocating them among stocks, bonds and cash. And you can further manage risk by picking more than one investment within a class: You might hold not just a single stock fund, but one fund for large-cap stocks, another for smaller-cap stocks and a third that invests overseas.

Don't Overdo It

So far, so good. But it is possible to overdo diversification. If you divide your savings among so many investments that you can barely keep track of them all, you may be overdiversified.

The more investments you own, the more likely you are to have duplication and overlap in your portfolio—too many funds that invest in the same types of securities, asset class or even in the same stocks. Instead of more diversification, you may actually be getting less.

If you invest in too many funds, even superior performance by one or two investments may not do as much as you'd like to increase the total value of your portfolio. And it might not go as far as you hoped toward reducing risk, either.

What To Do

Cut back to a number of funds you can manage easily: no more than one or two bond funds and perhaps three or four stock funds. Keep the ones in each asset class with the best long-term performance. Of course, you'll also need to consider a fund's fees and expenses, as well as your own tolerance for risk.

You may want to turn the job of diversification and asset allocation over to professionals by investing in one target-date fund. You choose your fund based on the year you expect to retire. Then, the fund's managers pick assets appropriate for your current age and continually adjust the asset mix as you get closer to retirement. As an alternative, you may want to consider a fee-based managed account.

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