

Diversification: When Enough Is Enough

Sometimes you can have too much of a good thing

You seek to help 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 small-cap stocks and a third that invests overseas. This, retirement savers, is diversification.

Just Say Whoa!

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, you may be overly diversified.

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 sectors of the market or the same types of companies — even in the same stocks. Instead of more diversification, you may actually be getting less.

What's more, 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. Your other investments' losses may offset those gains. Owning a multitude of funds may not go as far as you hope toward reducing risk, either.

Regain Control

Consider cutting back to no more than one or two bond funds and perhaps three or four stock funds — a number you can manage and monitor more easily. Keep the ones in each asset class with the best long-term performance. Of course, you'll also need to consider your investment horizon, financial goals and tolerance for risk.

Read the prospectus carefully before investing. It contains important information about the fund company with which you're investing.

You may want to turn the job of diversification and asset allocation over to professionals by investing in one target-date fund. You pick a fund based on the year you expect to retire. Then the fund's manager picks assets appropriate for your current age and continually adjusts the asset mix as you get closer to retirement.

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