

Building an Investment Foundation

There's nothing like a bull market to persuade investors that the more risk you take with your investments, the better they will perform. True, everyone needs to take risk with their investments, but there are different levels of risk. That's where building an investment foundation comes in. Think of all your investments as fitting into a pyramid, as depicted below.

- At the highest level are the riskiest investments, including speculative stocks, aggressive growth funds, and sector funds.
- The middle level of the pyramid includes investments that are somewhat less risky, including small company and international stock funds, which all investors should own, and junk bond funds that may be appealing when the economy is strong or rebounding.
- Finally, and most importantly, is the lower and largest level - the foundation of your investment pyramid. It includes high quality stocks and interest-earning securities or mutual funds that own these securities. Your entire investment portfolio is supported by the foundation and when the economy and investment outlook are so uncertain, building a strong foundation is crucial to investment success.

Your Investment Pyramid

