Jonathan Pond's One Pager

There's Nothing Wrong With Old-Fashioned Investing

There is no mystery to successful investing, just a lot of common sense applied to techniques which have been used successfully for decades. The trouble is that the financial services industry thrives on creating new and complex products of questionable value or espousing unusual investment strategies. How many times have we heard the words: "This time it's different." Sensible investing is never different, and the way to success is through old-fashioned, dull investments. Indeed, "happiness is a dull portfolio."

The problem in a nutshell. Most investors and investment managers are more concerned with how their investments are going to fare over the next week than they are over where they'll stand over the next decade. This leads to abandoning sound diversification principles in favor of loading up on investment risk when the markets are rising and abandoning risky investments in declining markets.

Diversification always works. Diversification, in other words, spreading your money among several types of investments that are firmly in the mainstream, i.e., stocks, bonds, and broadly-diversified mutual funds and exchange-traded funds, accomplishes two crucial objectives:

1. You'll always have at least some of your money in investment areas that are thriving and you'll never have too much money in an area that's diving.
2. Diversifying among various categories reduces overall investment risk while increasing investment returns. Lower risk with higher returns sounds too good to be true, but it is true.

There is a small price to pay for diversification. Because your money has been sown in many pastures, your investment returns are bound to underperform the leading performance benchmark - the one that gets all of the media attention. But you'll sleep like a rock.