DIVERSIFICATION ISN'T JUST ABOUT MARKET RISK

There are other risks we sometimes don't think about.

Provided by Emmaus Investor Services Corp.

When an investor or financial advisor thinks about diversification, it is generally with market risk in mind. It's worth remembering that there are other potential risks to your money – and diversification can be valuable in helping you cope with them.

Business risk. Even today, there are people who have worked for one company for many years and who own great amounts of corporate stock, perhaps as a significant portion of their 401(k) investments or overall portfolio. Are you one of them? Here's a word for you: Enron. It is risky to link your financial future to the health and viability of one company.

Investment advisor risk. We can be thankful, as investors and as a society, that Bernie Madoff represents an unfortunate aberration in the financial services industry. Financial advisors, investment advisors, money managers – hundreds of thousands of them work by strict legal, ethical, and moral standards. If they don't, they risk losing their livelihoods, or worse. But, very rarely, you do read stories of financial services professionals who have proved charlatans. One way to combat this risk is to check out the advisor. You can do it through the free Broker Check record search offered by the Financial Industry Regulatory Authority (finra.org/brokercheck), and through your state securities administrator. This risk, although thankfully rare, does give one pause to think about the value of having a strong cash position and diversification beyond the standard investment vehicles.

Brokerage risk. At mid-decade, if you had walked around Manhattan saying Lehman Brothers would go bankrupt, few would have paid you any mind. But it happened – not just because of the financial climate, but because of decisions management made.

Of course, brokerages only handle your investments; they are prohibited from tapping into your assets or lending them out when they get in a jam. The Securities Investor Protection Corporation protects up to $500,000 of your assets at a brokerage – including stocks, bonds, money market funds, and cash up to $100,000.[1] In the 39-year history of the SIPC, just 349 brokerage account holders have failed to get their entire portfolios back.[2] But SIPC coverage doesn't cover everything - fixed annuity contracts, commodity futures contracts, and certain investment contracts such as limited partnerships aren't protected.[1] Additionally, there have been a few brokerages that have lost their SIPC membership, for a variety of reasons. Again, it pays to be vigilant, and to diversify.

Political risk. Americans don't always link politics and financial pressures, except when it comes to oil and gas prices. Yet earlier this decade - I don't have to tell you the date - the financial markets were rocked by an unimaginable human tragedy and a new kind of global threat. The plunge was temporary, and it was a bear market at the

time. But the DJIA fell 685 points in a day and 14.26% across the succeeding week.[3] These risks, too, make you think about the value of diversification.

Currency risk. Many investors don't incorporate this factor into risk assumptions. But fluctuating exchange rates do present a risk element. If you have stocks in Canada that gain 6% but the Canadian dollar loses 6% of its value relative to the U.S. dollar, so much for that return.

Inflation risk. Inflation – even moderate inflation - effectively reduces your purchasing power over time. This is why growth investing is a priority in retirement.

Bottom line: be diversified. Have many baskets, not one. Speak to a qualified financial advisor to examine the financial options before you. There may be many more ways to invest your assets than you realize.

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