

**Q: Personal Finance: What is the benefit of time diversification?**

**A:** Time diversification, remaining invested over different market cycles, is extremely important yet often overlooked. Time diversification helps reduce the risk that you may enter or leave a particular investment or category at a bad time in the economic cycle. It has much more of an impact on investments that have a high degree of volatility, such as stocks, where prices can fluctuate over the short term. Longer time periods smooth those fluctuations. Conversely, if you cannot remain invested in a volatile investment over relatively long time periods, those investments should be avoided. Time diversification is less important for relatively stable investments, such as certificates of deposit, money market funds and short-term bonds.

Time diversification also comes into play when investing or withdrawing large sums of money. In general, it is better to do so gradually over time, rather than all at once, to reduce risk.