



# The Importance of Diversification

*With a diversified portfolio, your investments can be spread across various asset classes, industries, companies and even countries, in an attempt to avoid the consequences of "putting all your eggs in one basket."*

## The Legend Group

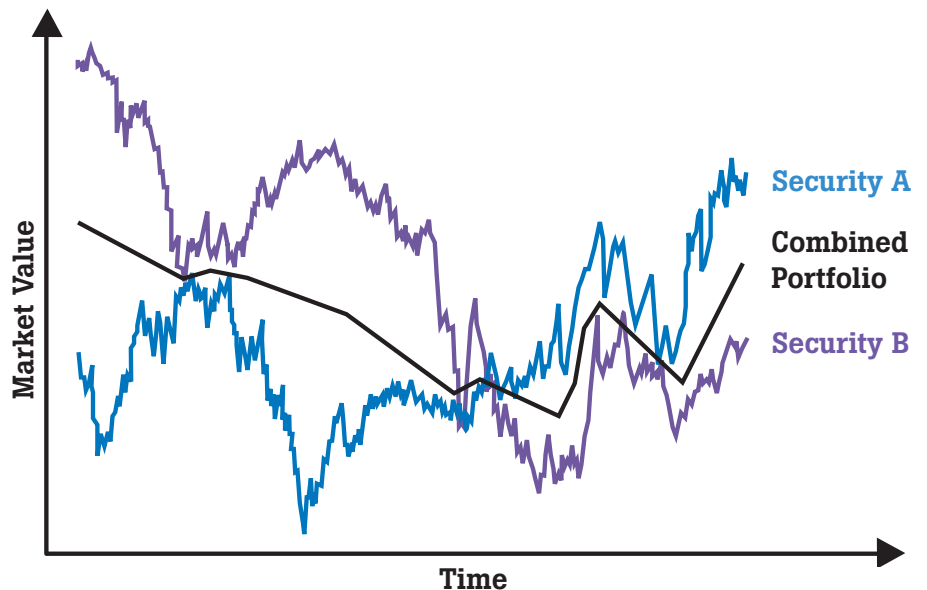
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FLC-0013/11-04

**D**iversification is an investment strategy that is employed to combat volatility and reduce portfolio risk. With a diversified portfolio, your investments can be spread across various asset classes, industries, companies and even countries, in an attempt to avoid the consequences of "putting all your eggs in one basket." By diversifying your portfolio, you reduce the chances of having all your assets in one investment that performs poorly, while increasing the chances of having at least some of your assets in an investment that does well.

The potential benefits of diversification are illustrated in the graph shown here:



In this scenario, an investor holding **Security A** experiences fluctuation in the value of his or her investment. Likewise, an investor holding **Security B** experiences the same kind of volatility. By diversifying their portfolios, including both shares of **Security A** and **Security B** in equal amounts, these investors have the potential to effectively balance their risk. Because downward movements in one security can be offset by upward movements in another, overall portfolio volatility is reduced.

*(continued on reverse)*



# The Importance of Diversification

## Diversification can be achieved in several ways:

### By asset class:

A diversified portfolio may hold a combination of stocks, bonds and cash. Each of these asset classes is composed of different investment types. Equity investments include the stock of domestic and international companies. These companies may be further differentiated as large-cap, mid-cap or small-cap, depending on market capitalization. Bonds are classified according to size, issuer, credit quality and duration, while cash includes money market instruments, certificates of deposit, T-bills and commercial paper.

### By market sector:

As we've seen in the example on the previous page, purchasing shares of more than one company reduces portfolio risk. Investors can further diversify their holdings by purchasing shares of companies in different market sectors. Suppose you had purchased shares of a technology company that manufactures computer chips, and that company experienced a slowdown in demand for its products due to an oversupply in the world markets. The company's profits would most likely shrink and the value of the shares would probably fall.

At the same time, suppose you had invested in an energy company when consumer demand was high, and the value of your shares increased. By allocating assets among different market sectors, your portfolio may realize more consistent performance under a wide range of economic conditions.

### By region/geographic location:

Just as the demand for the products or services of individual companies and market sectors fluctuates, regions and nations may experience varying economic conditions at different times. For instance, from 9/17/2001 through 11/8/2002, the Korean stock market saw a gain of 43.9%, while the US equity markets experienced a 13.8% drop.<sup>1</sup>

### By manager:

Many investors achieve some level of diversification by utilizing mutual funds. A mutual fund typically invests in dozens of securities in a variety of companies, industries and geographical areas, creating an asset mix most individuals cannot afford on their own. In effect, each

investor owns a piece of every company the mutual fund holds. And by investing in more than one mutual fund, you can ensure that securities selection responsibilities are divided among a number of managers, each of whom may specialize in a particular investment discipline.

Experts agree that the manner in which you allocate your assets among stocks, bonds and cash is the most important factor in investment success, and may account for as much as 90% of your portfolio's performance. But many investors have neither the time, nor the knowledge to select and maintain the combination of investments that has the best potential for growth.

Legend Advisory Corporation's *Strategic Asset Management (SAM)* program was created to help investors build a diversified portfolio with the potential to reach their long-term goals. *SAM* provides high-quality asset allocation services, professional investment selection and ongoing investment management through five actively managed mutual fund portfolios with objectives that range from conservative to aggressive. *SAM* seeks to preserve capital and/or attain capital appreciation, while reducing overall portfolio volatility.

Contact your Legend Advisor today to begin building a diversified investment portfolio with *SAM*.

### **Securities offered through Legend Equities Corporation, member NASD and SIPC.**

Advisory services offered through Legend Advisory Corporation, a registered investment advisor.

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<sup>1</sup>Reuters, as published in the Korean Stock Market Newsletter, Dec., 2002.

Diversification does not assure against market loss. Investments in foreign markets may involve risks such as foreign currency exchange rate fluctuations, political and economic conditions and foreign taxation. Before investing in a mutual fund, consider its investment objectives, risks, charges and expenses carefully. The prospectus, which contains this and other information about the mutual fund, can be obtained by contacting Legend Equities Corporation. Please read the prospectus carefully before you invest or send money.

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