



## Boeing's Turmoil Reminds Us to Diversify

*You should expect gains and losses in every asset class you own*

The turmoil witnessed by investors in Boeing in mid-March 2019 sadly demonstrated the benefits of diversifying your assets.

Boeing's stock price dropped over 10% in two days and then sharply again after President Trump ordered the grounding of all 737 Max planes in the US.

On the Friday before a Boeing 737 Max 8 passenger jet destined for Nairobi crashed and killed all 157 people on board, Boeing's stock traded at \$422. Three days later, it traded around \$366.

So, how do you figure out how well your asset mix is diversified and not too heavy in one area or one stock?

Frist, remember that market risk is always present. It comes in all forms: accounting risk, business risk, country risk, default risk, financial risk, and government risk. But to prevent most or even your entire portfolio from sinking in one market event, you need to diversify.

### Ignore Investors Who Brag

For every person who says a particular stock or stocks in general will have a meteoric rise this year, there are just as many that say you should avoid them. You hear some saying that bonds are doomed,

while others sing their praises. Buy gold, sell gold, buy real estate, sell real estate.

The truth is neither you nor I (or anyone else) can accurately predict which does well, which does horribly or which does better than others.

Of course, from time to time, some people guess right. They interpret their luck as superior knowledge, as if they knew more than the market does. Hindsight is 20/20, but foresight is 20/200. Often, these folks make several hundred guesses and only brag about the one or two they get right, ignoring the many others they get wrong.

Forget about trying to predict which investment is the winner or the loser. You never know for sure. Here's one thing to keep in mind for this year and beyond: diversification.

### Diversification 101

A diversified portfolio contains investments from different classes – stocks, bonds, and real estate. The purpose of this strategy is reducing risk. If one asset class performs poorly, others may offset the loss. Diversification doesn't mean you don't lose money, but at least, it offers some downside protection.

With a diversified portfolio, you should expect gains and losses in every asset class you own. Rarely do all asset classes move in the same direction together. If all of your investments go up at the same time and down at the same time, you're not properly diversified. If, in a bull market, all you see is spectacular gains and little losses – be very concerned.

It's not enough you are diversified across asset classes – you also have to diversify within them. Don't buy one stock based on opinions that are essentially guesses. Consider buying broad-based index funds, which contain a lot of different – but similar in some ways – types of stocks.

### **Warren Buffett and Diversification**

You may see articles that tell you to invest like Warren Buffett, the investing legend who has been known to be a critic of diversification. Sorry to break it to you, but you are not the Oracle of Omaha, nor can you ever invest like he does. After all, unlike Buffett, you probably don't have a few extra billions of dollars to buy companies.

If you look at the holdings of his investment company, Berkshire Hathaway, there's actually plenty of diversification, from insurers to railroads to underwear companies. Berkshire Hathaway is actually a lot like a mutual fund. And that's what you should think like when you invest.

At Patriot, diversification is a key pillar of our investment philosophy. As fee-only fiduciaries, it is integral to the high level of service we strive to provide.

