Diversification

Managing risk with common sense

Special Report

An investor's approach to investing for the future should be no different from the approach to other important life decisions: Use common sense, and remembering the old adage, "Don't put all your eggs in one basket". This best sums up the concept of diversification.

The fine print is right

The fine print on most investment-related materials makes one thing clear: all investing involves some degree of risk. Diversification is a simple way to manage those risks. It's a concept that involves spreading an investor's dollars among a variety of investments; or, as the popular phrase says, not putting "all your eggs in one basket".

By taking such an approach, an investor could be less affected by losses in any one investment; while any losses that are incurred may be offset by gains in another investment. Of course, as the fine print says, this approach doesn't guarantee better performance or protect against loss in declining markets.

A class performance

An investment portfolio consists of any of three main asset classes: stocks, bonds and money market instruments (cash). The key to a diversified portfolio is to identify investments in segments of each asset category that may perform differently under different market conditions.

An example: Rain or shine, you're covered

An individual invests in the stock of two companies – one manufactures raincoats, the other makes sunglasses. A rainy month brings great profits for the raincoat company, but profits slide during sunny months. So, the investor could help manage those highs and lows by investing in something that reacts differently to the same condition, the weather: sunglasses.

As this simplified example shows, a diversified portfolio can be made up entirely of investments in one asset class; in this case, that asset class is stocks.

Diversifying through asset allocation

Historically, market conditions that cause one asset category to do well often cause another category to have average or poor returns. Consider the following scenario:

You win some, you lose some

An investor has a portfolio that is equally invested in bonds and money market instruments. As interest rates rise, the value of the bonds in the portfolio drops accordingly, and the portfolio "loses" money. The investor's loss, however, is offset by an increase in value on the money market

This information is provided for your education only by the Voya™ family of companies.

beretirementready™

RETIREMENT | INVESTMENTS | INSURANCE

VOYA FINANCIAL™

investments, as these two types of investments react differently to the same external forces – the change in interest rates.

This example is based on the principle of "asset allocation," which takes diversification a step further by spreading investments among and within different asset categories. Many investors use asset allocation to diversify their investments; however, a diversified portfolio doesn't necessarily need to be divided among different asset classes (as described in the "rain or shine" example).

For a more detailed explanation of this concept, see the Special Report on Asset Allocation.

Spreading your eggs among different baskets

No one expects individual investors to predict fluctuating interest rates or study the operations of each company and predict stock prices. Some investors seek full-time professional management – by investing in mutual funds or investment options in your employer-sponsored retirement plan.

Diversification and Asset Allocation can be helpful, although they can't assure or guarantee better performance, and can't protect against loss in declining markets. However, they are well-recognized risk management concepts. Other factors an investor can consider include taking into account their personal financial situation, investment objectives, tolerance for risk, and how long the investor has before the money is needed.

Not FDIC/NCUA/NCUSIF Insured | Not a Deposit of a Bank/Credit Union | May Lose Value | Not Bank/Credit Union Guaranteed | Not Insured by Any Federal Government Agency

Insurance products, annuities and funding agreements are issued by Voya Retirement Insurance and Annuity Company ("VRIAC"), Windsor, CT. VRIAC is solely responsible for its own financial condition and contractual obligations. Plan administrative services provided by VRIAC or Voya Institutional Plan Services LLC ("VIPS"). VIPS does not engage in the sale or solicitation of securities. All companies are members of the Voya™ family of companies. **Securities distributed by Voya Financial Partners LLC (member SIPC) or third parties with which it has a selling agreement.** All products and services may not be available in all states.

142314 3010970.X.P-4 © 2014 Voya Services Company. All rights reserved. CN0410-17024-0516

beretirement ready™

RETIREMENT | INVESTMENTS | INSURANCE

VOYA FINANCIAL™

Voya.com

5000053