MONEY TALK

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Diversifying Your Assets

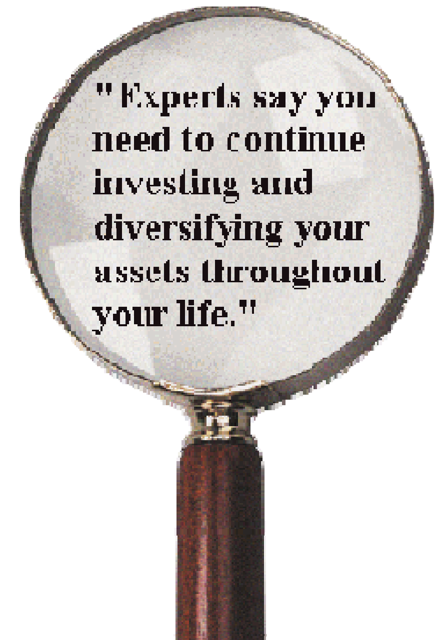
Most investors understand that a diversified portfolio will most likely reduce overall risk exposure and benefit return potential. The problem is, many investors believe they are diversified, when in fact they might not be.

Don't confuse quantity with diversity. It's easy to assume that you're diversified because, as an example, you might hold numerous mutual funds. Of course, investing in several funds may lessen the potential negative impact of any one fund, but unless the funds have different **investment styles** different **objectives** and different **risk/reward characteristics,** you will not get the full benefits of diversification.

What is style and why does it matter? In the case of mutual funds, investment style has to do with the investment selection style of the portfolio manager. Perhaps you've heard of portfolio managers being referred to as either "value" or "growth" managers — these terms refer to two different styles. Historically, no single investment style has consistently outperformed the other. Since it is impossible to predict which style will be the next top performer, the best course of action might be to diversify among different "styles," as well as asset classes and market capitalizations. Style diversification could provide greater risk protection and return potential.

Even investors who buy funds with different investment styles may find that their portfolios are not truly diversified because of a thing called "**style drift**." For example, you might buy a growth fund and a value fund (let's assume that the "value style" is currently "out of favor"), but over time, in an effort to boost returns, the value manager might add some growth stocks to their portfolio. Or, some of the value stocks might have become "growth" stocks over time. This phenomenon, known as "style drift" happens more often than you might expect and will reduce the diversification of your portfolio. This problem is especially tricky because it is difficult for investors to even know that it is occurring. The only way to know if the manager is drifting from their style is to closely monitor each fund's individual holdings.

This could be a daunting and time consuming task, especially for the average investor!



If you believe in diversification, then style consistency should most definitely be one of your concerns. If left unchecked, your portfolio could experience style drift and become heavily weighted toward one style, which could interfere with your investment objectives.

Constructing a portfolio that is well diversified is not an easy task.

"An investor without investment objectives is like a traveler without a destination." — Ralph Hubbard

What is Long Term Health Care (LTHC)?

LTHC is a range of services that includes both medical and non-medical care. It is primarily provided to people who have a chronic illness or disability. Most LTHC is to assist people with day to day support services or Activities of Daily Living, known in the industry as “ADLs”. When one needs assistance with two of the six ADLs, LTHC is almost always needed.

According to the Federal Government, by the year 2020, twelve million elderly Americans will need LTHC. The majority of these recipients will be cared for at home, with family and friends being their primary caregivers. Many others will be provided care in an assisted living arrangement or nursing home environment.

Although it is quite certain that many elderly people will need LTHC, it’s possible that one could need this type of care at a much earlier age. The Federal Government also estimates that about 40 percent of people currently receiving LTHC are between the ages of 18 and 64. As you can see, it’s not just the elderly who are at risk.

Choosing LTHC for a loved one is an important decision, and it’s important to plan well in advance about how you will fund this type of care.

What is Long Term Health Care Insurance?

LTHC Insurance pays a benefit to individuals who need help with two of the six ADLs or to those who have a cognitive impairment, such as Alzheimer's disease. ADLs are the things that we take for granted in our younger years. They are described in policies as being eating, bathing, dressing, toileting, maintaining continence and transferring. Should you need assistance with two of the six ADLs, if you had LTHC Insurance, the insurance provider would most likely pay a daily or monthly benefit.

Over the past 25 years, which is about how long LTHC policies have existed, paid benefits have evolved based on the insurance industry's experience with this type of coverage. An aging American population will most definitely equate to higher insurance premiums. We also might see more stringent eligibility requirements, and more sharing of the risks between the insured and the insurance companies.

There are several different types of policies available. Usually, they are known as “indemnity” or “expense incurred.” policies. Indemnity policies will pay a fixed amount based on your selected daily/monthly benefit. Expense incurred policies will pay for your incurred daily or monthly expenses up to your selected benefit.

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About Dixie Butler — she is a Certified Financial Planner, a Certified Divorce Financial Analyst, and is an Enrolled Agent, entitling her to practice before the IRS. She has been in the investment and financial industry for over 25 years.

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