Bank of Ireland
Investment Markets

Diversification: The golden rule of Investing

By Donal Coughlan, Investment Specialist, Bank of Ireland Investment Markets

"It is the part of a wise man to keep himself to-day for to-morrow, and not to venture all his eggs in one basket".

The principle of not putting all your eggs in one basket has been around for centuries, since 1605 in fact, when Miguel Cervantes coined the well-known phrase in his novel 'Don Quixote'. Times have certainly changed, but this principle of diversification is every bit as relevant today as it was then.

When it comes to investing, it is true to say that diversification can on occasion come at a cost. This is especially true when the real economy is performing strongly and real assets such as equities and property are moving consistently upwards. In these good times, having a variety of different 'eggs' (diversification) in your investment basket can somewhat lessen the gains you experience.

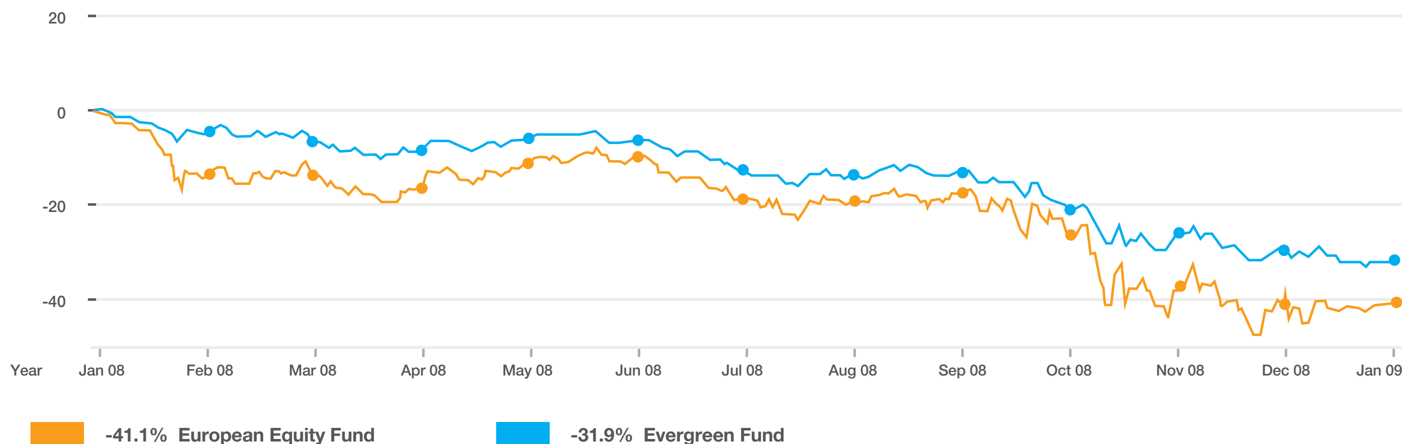
However it is only when something unexpectedly goes wrong, and a shock occurs to the system that not having all your investment 'eggs' in one asset, region or theme really bears fruit. As time has well and truly demonstrated (see later example).

Experiencing large falls in your investment journey can make it much more difficult to achieve your end objective. Did you know that in order to recover from a 50% loss on your investment, it requires a subsequent gain of 100%? The main benefit of diversification can be to reduce the size of the falls that your investment portfolio experiences. As a result of diversification, your portfolio is less exposed to the impact of large falls in a particular asset class (such as equities or property). This smooths your investment journey as it reduces the need to 'run harder' in order for your investment to recover from detrimental large falls.

The example below illustrates this point. It is taken from a volatile period for investment markets (2008-2009, the Global Financial Crisis) and compares the performance of two Bank of Ireland Life funds – Evergreen and the Equity Fund over this period. Evergreen is a Bank of Ireland Life Investment fund that invests in a mix of assets (equities, bonds, property an cash). . The Equity fund is a fund that invests only in global equities. As you can see, while both funds experienced falls as both funds have equity exposure however, the Equity fund, without diversification across asset classes to lessen the impact, fell to a greater extent.

Fund Performance from 01-01-2008 to 01-01-2009

Source: Longboat Anaytics



Performance as at 01-01-2009

Cumulative	1Mth	3Mth	YTD	1Yr	3Yrs	5Yrs	10Yrs
European Equity Fund	-0.2%	-19.9%	0.0%	-41.1%	-31.9%	-5.5%	-
Evergreen Fund	-3.3%	-14.2%	0.0%	-31.9%	-27.1%	-4.6%	-

Annualised	1Mth	3Mth	YTD	1Yr	3Yrs (p.a.)	5Yrs (p.a.)	10Yrs (p.a.)
European Equity Fund	-0.2%	-19.9%	0.0%	-41.1%	-12.0%	-1.1%	-
Evergreen Fund	-3.3%	-14.2%	0.0%	-31.9%	-10.0%	-0.9%	-

Calender Year	2008	2007	2006	2005	2004	2003	2002
European Equity Fund	-41.1%	1.8%	13.6%	25.7%	10.3%	13.2%	-31.9%
Evergreen Fund	-31.9%	-5.5%	13.3%	17.3%	11.5%	12.7%	-7.5%

Warning: These funds may be affected by changes in currency exchange rates.
Warning: The value of your investment may go down as well as up.
Warning: Past performance is not a reliable guide to future performance.
Warning: If you invest in these funds you may lose some or all of the money you invest.

Following this time honoured approach of diversified investing won't always have the latest 'flavour of the month' investment as the leading factor in the portfolio. However, it does provide the comfort of knowing that when you need the protection that diversification provides, it will be there to smooth your investment journey and help you on your way to achieving your investment objectives.

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