## What are the Risks of Having an Undiversified Investment Portfolio?

In the world of investing, the concept of diversification is broadly accepted as an effective means of reducing overall risk to your financial portfolio. Properly allocating your assets to achieve an adequate or above average rate of return while tempering the risks associated with investing in any type of market or commodity defines the term “diversification” quite well.

Without the application of some form of diversification, an individual’s financial portfolio can be subject to certain untenable risks outside the comfort zone of the investor. Some of the risks associated with a portfolio that is too narrowly focused and undiversified are as follows:

**Sudden and Significant Financial Losses Due to Market Changes**
Even though diversifying your portfolio means adding addition assets, this can be quite beneficial in order to provide a built-in defense against market changes. Failure to spread risk among a variety of different assets, such as corporate bonds, government bonds, industrial sector stocks, technology stocks, long-term bonds, short-term bonds, energy stocks, **mining stocks** and many others, can significantly put your portfolio at risk.

For instance, if you are only invested in one or even a small group of stocks or bonds generally in the same market sector, any failures in that industry or market sector can mean huge losses to your net worth. By diversifying your portfolio, even if one asset fails, you have many other assets you can depend upon in other sectors and arenas that will continue providing positive returns.

**Forfeiting the Benefits of Having Different Income Streams**
The failure to diversify your portfolio can also mean failing to take advantage of different sectors of the market that may prove incredibly profitable. If you focus all of your investing resources in a narrow portion of the market, you may never realize potential profitable opportunities available in other sectors.

As well, through diversification, you can enjoy the benefits of receiving income from several different sources, such as investments in **gold mining companies**, bonds, stocks, real estate investments, annuities and mutual funds. This alone provides a sense of financial stability that is not possible when all of your eggs are in one basket, so to speak.

Income can fluctuate with some types of assets, so diversification allows you to even out losses with gains in other areas, providing you with investment stability. Narrowly focused investing does not afford this benefit, and depends upon the continued success of a limited number of income sources to achieve continued profitable results.

**Inability to Improve Your Investment Portfolio Based on Past Performance**
An undiversified portfolio does not provide the ability to analyze the long term results of many different types of asset classes and investment sectors. For instance, with a significantly diversified portfolio, possible consisting of, bonds, gold stocks from companies such as

**Graystone Mining**, technology stocks from companies such as Apple and Intel and stocks from other industry sectors, the investor can identify the best performing investments and make adjustment to his portfolio by shifting investments toward higher performers. This provides the potential for continual improvement and higher gains over time.

An undiversified portfolio never engages a broad selection of investment opportunities and thus does not provide any data to the investor about how to make future portfolio improvements.