THREE MORE WORDS

BY ERIK FORD

In my February contribution, I wrote about three words for investing success: Capital, Courage, and Patience. I now want to add three additional words: **Diversify, Dividends, and Duration.**

Diversification has always been a valuable risk management concept. Not putting all your eggs in one basket applies to more than just transporting the production of your hens. Today, just holding the S&P 500 is not as diversified as may be appropriate for most investors. Out of 500 companies in the S&P 500 index, the top ten make up 37.8% of this capitalization weighted index, making it very concentrated and higher in risk than an investor may think. Adding to this is that the majority of the top ten companies are large tech companies, which tend to be volatile. Everyone is happy when they go up, but that may also bring panic if they all move down together.

To encourage staying the course as a long-term investor and overcome the urge to make changes that may work against your long-term goals, having investments that do not move together is important. Proper diversification can smooth portfolio returns and ease the psychological effects of big portfolio swings. In practice, we focus on risk and build a portfolio around the target level of risk. It is more than just deciding between stocks and bonds.

Effective diversification means diversification among the stock and bond holdings and possibly adding additional asset classes to the mix.

Dividends should not be ignored. In recent years the focus has been on growth companies, which typically pay little or no dividends. However, over time dividends have made up a considerable portion of equity returns for investors. While your typical dividend payor may not be a flashy stock worthy of bragging at the cocktail party, the steady dividend returns cushions the ups and downs of the equity markets. Reinvesting dividends compounds the returns over time to add a steady growth factor to a portfolio. Referring back to the first word, you do not need to concentrate your portfolio on dividend payers but diversify across growth and value equities as well as across industries and capitalization. The point is not to exclude those boring consistent dividend payers because they are not as sexy as those high-flying growth names.

Our last word is **Duration.** Duration refers to the fixed income or bond allocation in you diversified portfolio. While the calculation of duration is a bit complicated (it is not as simple as maturity), the essence is that it measures the effect of a change in interest rates on the value of a bond. Traditionally, bonds have been viewed as a stable, income producing component to a diversified portfolio. In 2022 it became clear to bond investors that this was a poor assumption.

When the Fed raised rates sharply in 2022 in reaction to inflation not being "transitory", bond values took a big hit and the longer the duration the larger the decline in value. Duration is correlated to a bond's maturity, such that a longer maturity bond tends to have a higher duration. The point is when constructing the fixed income portion of a portfolio, paying attention to the duration of the fixed income is important. At a time when the yield curve is relatively flat, i.e., short-term rates do not differ from long-term rates, you are not being paid to take the increased risk of a higher duration. Everyone can have their own opinion of where interest rates are likely to go but being conscious of your fixed income portfolio's duration risk is as important as how you construct the other allocations in your portfolio.

As mentioned above, the appropriate risk of your portfolio may be the most important decision in portfolio construction. Understanding how that risk is determined and how it is mitigated is critical to long-term performance. Keys to that is Diversification, Dividends, and Duration.

The S&P 500 Index, or the Standard & Poor's 500 Index, is a market-capitalization-weighted index of the 500 largest publicly traded companies in the U.S. It is not an exact list of the top 500 U.S. companies by market capitalization because there are other criteria to be included in the index.

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Address	List Price	Sale Price	DOM	Beds	Baths	SqFt	Style
350 Center St	$409,900	$400,000	50	3	1.1	1,536	2 Stories
2N356 Pearl Ave	$399,900	$415,000	18	5	3	2,184	2 Stories
2N175 Bernice Ave	$448,700	$435,000	18	3	2.1	1,681	1 Story
275 Hillside Ave	$475,000	$475,000	6	3	2	1,100	1.5 Story
618 Marston Ave	$535,000	$525,000	35	3	2	1,200	1 Story
154 Newton Ave	$530,000	$535,000	3	4	2.1	2,185	2 Stories
21W550 Kensington Rd	$525,000	$545,000	4	5	3	2,254	Split Level
447 Lowell Ave	$574,000	$550,000	2	3	1.1	1,319	1 Story
413 Lawrence Ave	$568,000	$580,000	80	4	2.1	2,685	Split Level
492 Oak St	$549,900	$585,000	4	3	3	1,296	1.5 Story
889 Marston Ct	$649,900	$619,000	36	5	4.1	3,248	2 Stories
754 Euclid Ave	$625,000	$645,000	7	3	2	1,318	1 Story
20 Muirwood Dr	$759,000	$744,000	37	4	2	2,400	2 Stories
192 N Lambert Rd	$775,000	$835,000	3	4	3.1	2,420	2 Stories
420 Taylor Ave	$775,000	$842,500	12	3	2.1	2,073	2 Stories
382 Amy Ct	$899,900	$899,000	7	4	3.1	3,119	2 Stories
176 Derby Glen Dr	$899,000	$900,000	7	5	3.1	3,495	2 Stories
1038 Deer Glen Ct	$950,000	$960,000	3	4	4.1	4,075	2 Stories