



### **Strategic Diversification**

Diversifying your investments has its benefits and disadvantages. While a greater safety net is built below your portfolio, a net above is also built. Broad diversification when investing promises that your portfolio will never go too low or too high. For conservative investors that are willing to take some risk, I propose a different path. This path is strategic in its safety, but minimizes the limits of future portfolio growth.

We live in a world that fears loose monetary policy will eventually lead to higher rates of inflation, where low interest rates have forced an aging population into other forms of income producing investments, and the insatiable hunger and dependency on technological tools has spread from the youth to the elderly. These three themes are more reasonable than radical and can be easily be used to build a diversified investment portfolio.

How does an investor receive protection from the flames of inflation? Direct exposure to commodities can be a risky strategy. Holding a broad base of various commodities will provide less exposure to fast price fluctuations, but a safer method exists. Master Limited Partnerships provide a certain degree of exposure to commodity prices, while allowing the investor to benefit from regular dividend payments. MLPs are primarily involved in the process of energy transpiration or extraction. Most have some form of commodity exposure. For the general investor, the least cumbersome route to take when investing in an MLP is via an ETF. Alerian MLP ETF (**AMPLP**) and Global X MLP ETF (**MLPA**) are two good examples of diversified baskets of MLPs in the form of an ETF.

Low interest rates are the bane of a savers existence. They produce an environment where savers are punished rather than rewarded for their long-term goals and self-control. For a population with a growing percentage of retired individuals, low interest rates mean that “risk free” investment vehicles, such as savings and money market accounts, cannot be used to generate a regular income stream. Often large companies that have stable lines of business and have a track record of paying dividends on a regular basis are utilized as an income source.

Stock in companies that pay regular dividends and have a track record of growing their dividend distribution are a vital tool for any long-term conservative investor. Increasing dividend distributions puts upward pressure on the stock’s price, while increasing the annual yield received from the investment based on its purchase price. For a diversified approach, consider S&P Dividend ETF (**SDY**) and First Trust DJ Global Select Dividend Index Fund (**FGD**).

For many investors, technology is synonymous with growth. This is relatively true, but the ‘tech sector’ has come a long way since the wild speculation that occurred in the late 90’s. A

number of large tech companies, such as Microsoft and Cisco are investments geared toward a more value focused investor. A variety does exist, but the tech realm is still very dynamic and growth oriented. Again, use of an ETF is a very wise strategy in an area where leaders in the industry often change. Two tech focused ETFs are S&P Global Technology Sector Index Fund (IXN) and Dow Jones U.S. Technology Index Fund Holdings (IYW). Both will enable your portfolio to benefit from growth in the area of computer technology.

If you're a conservative investor that has a long-term time horizon (5-10 years), this three-way split is one way to gain a good degree of diversification, while not relegating your portfolio to marginal gains. Remember, risk isn't necessarily bad, it just needs to be controlled.

### TheMarketCapitalist.com Portfolio Selection

Company	Ticker	Buy Date	Buy Price	Last Price	Performance	Dividend %	Buy Target
SeaDrill Limited	SDRL	9/7/2011	30.25	39.53	30.68%	8.10%	Up to 38
Weatherford International Ltd.	WFT	9/7/2011	16.31	10.71	-34.33%	0.00%	Up to 26
American Tower Corp.	AMT	9/7/2011	53.75	74.48	38.57%	0.00%	Up to 68
PowerShares Water Resources	PHO	9/7/2011	16.42	19.34	17.78%	0.64%	Up to 22
Cisco Systems, Inc.	CSCO	9/7/2011	15.42	16.83	9.14%	1.20%	Up to 21
Deere & Company	DE	9/7/2011	78.97	83.59	5.85%	1.90%	Up to 92
Chesapeak Granite Walsh Trust	CHKR	2/3/2011	25.19	19.77	-21.52%	9.30%	Up to 26

#### Investing – Where to start?

A big problem for many people that have a desire to invest is figuring out where to start. Many investment options exist, enough jargon can be thrown around in a few minutes to make your head spin and we've just gone through a decade that has produced little to no returns for many investors. These 3 facts alone can make the idea of investing on your own or with an advisor a dubious task.

To ease into the idea of being an individual investor, find an online brokerage company and open an account. When I first opened my Scottrade account, I put the minimum amount of \$500 into the account and bought two stocks. I did this because I got burnt bad when the dot-com bubble burst around 2000.

Establishing a position in two stocks with \$500 is not the greatest strategy in terms of making money, but it is a great way to get comfortable with investing and learn by actually having some skin in the game. After a few months I actually did make a little bit of money and I was able to learn a lot more than I would have if I hadn't actually invested.

If the idea of owning actual stock in specific companies sounds a little too daunting, my best advice would be to invest using exchange traded funds (ETFs). ETFs are cousins to mutual funds, but, in general, have lower annual fees because they are designed to hold a basket of stocks, bonds, or commodities. The fund is not out to beat the market (as mutual funds are), they

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are out to match the market.

A vast number of ETFs exist that focus on many different investment themes and styles. Almost all ETFs provide investors with an instant form of diversification. While the funds' specific investment tilt will affect the level of diversification, an ETF is a useful tool to mitigate company specific risk that individual stock investors face.

If you have opened your brokerage account, your provider will likely have a well developed ETF research section that features a screening tool. The screening section will likely have pre-defined screens, which may give you a starting point for your selection. A free resource that will provide you with a wealth of information is [Yahoo! Finance's ETF education and research section](#).

No rule says you need to jump feet first into the investing pool. Take your time and start small. Don't get carried away if you have success early and don't beat yourself up, if your initial investments don't pay off right away. You're not at a casino.

### ***Personal Finance: The Necessity of Budgeting***

If you have read the *Millionaire Next Door*, you may remember that two general paths were taken by the overwhelming majority of millionaires interviewed. Either the millionaires reached their current status through budgeting or were naturally frugal. If you're not naturally frugal, you better get in the habit of making a budget, if you're going to get anywhere financially.

Whether you're single or married, budgeting can be a very helpful tool. While a budget is a great planning tool, the usefulness of a budget lies in the discipline of the person or persons that have developed the budget. In other words, going through the exercise of budgeting is only half the battle. Executing the plan is the other half. Both are equally important.

With Christmas less than two months away, many people make budgeting a focal point at this time of year. Expenses can get out of hand fast and it's important to control costs. Having this awareness is great, yet it should not be confined to Christmas. Every month or special occasion should have a budget. If you're not naturally frugal, then you need a spending plan, which is where a budget comes into play.

If you're casting off the idea of developing and adhering to a budget based on the fact that you don't ever think you will be a millionaire, you're missing the point. Whether or not you'll amass a certain amount of wealth is secondary. Financial stability and security is the primary goal when budgeting is used.

Far too many people have voluntarily subjugated themselves and their future to the service of debt. What has been gained? How many people that are over their head in credit card debt go around boasting about the worthwhile expenses they incurred? I've never run into that person.

Spending money is easy. A million different products and services await you at every turn. Building a budget and having the self-restraint to stick to your spending plan can ward off the temptations and weakness you have. If frugality isn't in your blood, then make sure a budget is

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burnt into your mind. Debt is a horrible master.