

QUESTION:

I am interested in starting a retirement portfolio, but am unsure of whether I should use stocks or mutual funds. Which do you recommend?

ANSWER:

At some point a combination of the two is highly recommended. However, for most individuals, Mutual funds are the most reliable investment option. When you own shares of a company's stock you are 100% tied to the performance of that stock. In years past, we saw individual stocks lose as much as 90% of their value in some cases. In other words, all of the risk you are willing to take depends solely on how that individual stock performs.

This leads to the real benefit of using mutual funds - you can diversify your investment in multiple stocks, all at the same time. Your investment gets pooled together with other investors, which increases the average person's purchasing power. By spreading out your investment over several stocks you help lower the risk in your overall portfolio. This concept is known as portfolio diversification. Inherently, the broader your diversification, the less risk you are exposed to. Mutual funds are a good way for the average person to invest in a wide range of investments, and with less money than it would take to accomplish the same level of diversification with stocks.

WorkInvest is a program by RSG Partners Financial & Insurance Services, Inc.

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