with kirk swartzbaugh

can you please repeat that in english?

do you ever get frustrated with investment professionals' use of industry jargon to the point that you have no idea what they are talking about? If so, please read on for my "Cliffs Notes" guide to investing.

First, there is the difference between fixed income investments and equity investments. Typical fixed income instruments are corporate bonds, municipal bonds (which can also be tax-exempt), Treasury Bills, etc. They are usually fairly consistent and provide a semi-steady interest payment. Equity investments refer to stocks and mutual funds. Investments in securities involve risks, including the possible loss of principal. When redeemed, shares may be worth more or less than their original value.

Next, there are the different sizes of companies in which you can invest. Large cap companies are valued over $10 billion. Mid cap companies are valued between $2 and $10 billion. Small cap companies are valued under $2 billion, but usually worth more than $300 million. Small cap investments are subject to considerable price fluctuations and are more volatile than large company stocks. Investors should consider the additional risks involved in small cap investments.

Then, there is the difference between value stocks and growth stocks. Value stocks are lower priced stocks when considering their P/E Ratio, which is the stock price divided by the corporation's earnings. Growth stocks are just the opposite since they have a high P/E ratio, to the point that some may say that they are overvalued. Just like large cap stocks, growth stocks are known to be a little steadier with regards to price volatility.

Since the U.S. stock market makes up less than half of the global equity market, international stocks and emerging market stocks are quite popular places for investors to place their monies as well. International companies are generally larger companies outside the U.S.; whereas emerging market countries are typically located in Eastern Europe, Africa, the Middle East, Latin America, the Far East and Asia. There are special risks associated with international investing, including currency fluctuations, political and economic uncertainty, foreign taxation, and different account standards.

Given the volatility of small, value, and emerging market stocks, why would someone invest in them? Because these types of asset classes have provided some of the highest returns throughout the years; yet some of the highest price volatility as well.

So how do you minimize your risk when investing in these highly volatile asset classes? Investors combine these stocks with other asset classes that aren't as volatile or don't go up and down in tandem to these asset classes.

For instance, by adding fixed income assets into your portfolio you reduce its' volatility. Another option is to mix small cap, mid cap, large cap, growth, value, international, and emerging markets into a portfolio. One can also use assets such as materials, natural resources, real estate, and inflation-protected securities that historically have had their prices rise as the stock market declines, which further helps to dissipate the ups and downs of the portfolio for a steadier ride; however, diversification does not ensure a profit or protect against loss in a declining market.

Finally, it is most important to rebalance your portfolio periodically (I recommend 1-2 times a year). Not only are you selling something at a high and deploying those monies to an asset class that is valued low, but rebalancing prevents a portfolio from becoming overweighted in any one asset class and becoming non-diversified.

For more Information, please contact your trusted advisor at Swartzbaugh-Farber – Client Centered – Client Advocates™.