

# PORTFOLIO CONCENTRATION: THE RISK OF FICKLE FAVORITES



When your investments are overly weighted in any particular area, you expose your portfolio to a phenomenon called concentration risk. This risk often takes the form of concentration in a single stock but can occur within sectors, styles or countries as well.

This doesn't mean that what you've invested in is bad or risky in itself. For example, that big holding of your employer's stock could be the best performing instrument in your portfolio. It just means that the act of owning too much of it introduces a new kind of risk.

We're all familiar with the caution around "putting *all* your eggs in one basket." For most, this is an easy one to avoid. But the parallel here is to be mindful of putting *too many* of your eggs, as a percentage, in a single stock, style, sector or country. Recognizing this potential risk takes more careful consideration.

## The Common Causes of Concentration Risk

FINRA, the non-profit corporation authorized by congress to protect America's investors, says that avoiding concentration risk is more complex than simply not owning too much of a particular stock or bond. They note that the risk of "amplified losses" may occur just from having a large portion of your holdings in a market segment or even asset class.

They identify five common ways portfolio concentration can occur.<sup>1</sup>

### 1. Intentional Concentration

You buy an individual stock or sector because you believe it will outperform its peers.

### 2. Concentration Due To Asset Performance

One of your investments has outperformed the rest of your portfolio and now represents a significantly greater percentage of your holdings.

### 3. Company Stock Concentration

Your work for a good company and have purchased a significant amount of its stock.

### 4. Concentration Due To Correlated Assets

Your investments within the same industry, geographic region, or security type tend to be highly correlated—meaning they are likely to move in parallel.

### 5. Concentration In Illiquid Investments

These are investments that are difficult to sell in a timely or cost-efficient manner, things like private placements and non-traded investments.

## **Countering This Risk**

The answer to concentration risk is measurable diversification and disciplined portfolio rebalancing.

Measurable diversification means owning funds that are broadly exposed across multiple market styles and sectors, including those in international markets. It also means owning things that tend to have dissimilar price movement over time. While diversification can't guarantee your portfolio won't suffer declines, it provides a risk-managed path to pursuing inflation-beating gains of the market over time. The goal of diversification is to maximize your probability of success while reducing your exposure to potential amplified losses from over concentration.

Portfolio rebalancing is another important tool in helping to reduce concentration risk. When particular asset categories are significantly outperforming others, they become a larger percentage of your overall holdings. Using a rules-based rebalancing approach, the gains in asset categories that become over-weighted from their original targets are harvested and reinvested in asset categories that are under-weighted. Applying the discipline of rebalancing helps you avoid getting overly fond of a particular part of your portfolio that's recently outshined the others.

One of the best ways to stay on top of concentration risk is to take a big picture, comprehensive approach to all your investment holdings. We can help you choose the appropriate asset allocation for your unique situation to help lower your portfolio's exposure to potential concentration risk.

Have a great weekend!

## Golf Tip of the Week



### Fixing Your Golf Swing

It's the single most important part of golf: the swing. Besides learning to hold a club, it's the first lesson you learned about the game. But occasionally something goes awry—even among seasoned players.

It may be minor or something so outrageous as missing the ball altogether. How do you fix your swing?

Here are 2 ways to get you back into the swing of things:

**First things first:** Golfers occasionally make adjustments over time to develop power, to add more distance, or to achieve other game goals. While the changes may feel subtle and produce other desirable gains, other parts of your game begin to deteriorate, sometimes very slowly. You change your shoulder positioning, for example, to gain lift or to obtain some other objective.

What should you do to regain that initial finesse? Go back to square 1. Do what you did in the beginning; return to the same parallel-shoulder-to-target-line stance you learned at first.

**Get a grip:** How are you holding your club? If you're squeezing your club too tightly, you're going to lose the club release or not produce adequate club speed. Pros recommend holding the club at a force of 4 out of 10 with 10 being the strongest.

Restoring your game to full potential (or its former luster) can be as easy as returning to the basics and adopting a few simple techniques.

Adapted from Golfweek<sup>i</sup>

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## Recipe of the Week



### Lemon Salmon Piccata

Serves 4

#### Ingredients:

4 (6-oz) skinless salmon fillets  
½ teaspoon coarse salt  
½ teaspoon pepper  
3 tablespoons all-purpose flour  
2 tablespoons olive oil  
3 garlic cloves, minced  
¼ cup dry white wine, such as sauvignon blanc  
¼ cup lemon juice (from about 2 lemons), plus lemon slices for garnish  
2 tablespoons rinsed and drained capers  
2 tablespoons chopped parsley  
2 teaspoons unsalted butter

#### Directions:

1. Season the salmon with the salt and pepper.
2. Coat the salmon with the flour in a shallow bowl. Shake off excess.
3. Heat the olive oil at medium-high in a large cast iron or nonstick skillet.
4. Cook the salmon for about 2 minutes until golden, turning once.
5. Lower the heat to medium. Add garlic and cook for about another minute.
6. Add the wine, lemon juice, capers, and parsley and let simmer 5-6 minutes on medium-low heat until fish fillets are cooked through.
7. Add butter after removing the pan from the heat. Stir for about 30 seconds until the butter is melted.

8. Garnish with the lemon slices and add the sauce.

Recipe adapted from Good Housekeeping<sup>ii</sup>

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## Health Tip of the Week



### The Scoop on Food Poisoning

Jean Anthelme Brillat-Savarin is credited with saying: “You are what you eat.” But the 19<sup>th</sup> century French physician’s observation provides little comfort when you find yourself suffering from food poisoning.

More than 3 million Americans suffer from food poisoning every year, which is considered an extremely common ailment. Symptoms vary from mild intestinal discomfort to severe dehydration and bloody diarrhea. Treatment involves drinking plenty of fluids and close monitoring of symptoms.

Stay away from sports drinks, fruit juices, and soda, which have too much sugar and lack adequate electrolyte levels.

Medical authorities recommend returning to your normal diet when you’re able to tolerate solid foods, which will help restore adequate nutrition levels.

Tips adapted from WebMD<sup>iii</sup>

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**Sources:**

1. <http://go.efficientadvisors.com/e/91522/concentrate-concentration-risk/54jnj5/339851996>

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<sup>i</sup> <http://golftips.golfweek.com/fix-golf-swing-1032.html>

<sup>ii</sup> <http://www.goodhousekeeping.com/food-recipes/healthy/a46953/lemony-salmon-piccata/>

<sup>iii</sup> <https://www.webmd.com/food-recipes/food-poisoning/food-poisoning-and-safe-food-handling-home-treatment>