The Retirement Planning Group
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October 2007

CASE STUDY: The Franken-portfolio

BACKGROUND:

We are all familiar with Mary Shelley's tale of Frankenstein where the scientist learns how to reanimate flesh and creates a being in the likeness of man out of body parts taken from the dead.

Unfortunately, too many investor portfolios have been assembled in much the same manner. Typically investors find themselves owning a Franken-portfolio due to one or both of the following:

1. The investor may have been self-managing their investments and over the years, without any solid financial advice, they may have purchased a "little bit of this and a little bit of that". Over time, they find themselves with a Franken-portfolio.

2. They may have been working with a stockbroker that calls them from time-to-time with a new "recommendation" for their portfolio. Not knowing any different, the investor often follows the advice. Over time, as each new recommendation is made, typically the investor finds themselves with a hodge-podge portfolio made with bits and pieces of different investments.

THE PROBLEM:

Many investors live by the mantra "don't put all your eggs in one basket". And this is sound thinking. However, the mistake many investors make is assuming that diversification is attained by the **number** of investments owned. When in reality, diversification is attributed to the **type** of investments owned.

CASE STUDY:

Recently, we had a prospective client visit our office to participate in The P.R.E.P. (Pre-Retirement, Education and Planning) Process. At our initial consultation he gave us copies of his 401k statements along with a statement of his holdings at a national stockbrokerage firm. The total value of both accounts was $750,000. In total he owned 8 different mutual funds in his 401k and 10 different mutual funds and 6 stock positions at the brokerage firm. He felt that he was adequately diversified.

As part of our PREP Process, we analyzed all of the investments to make sure they were working together. However, upon closer inspection, we brought to his attention that 18 of the 24 investments he owned were invested in the same area of the market! Unbeknown to him, over 70% of his portfolio was invested in International Markets. This put his portfolio at significant risk!!!

SUGGESTIONS TO CLIENT:

1. Put together a plan before making investment decisions
2. Retain an advisor that will look “at the big picture”
3. Diversify portfolio across several areas of the market both domestically and internationally

SUMMARY:

A key component to the success of any investor portfolio is diversification. Again, diversification is attained by the types of investments, not the number of investments. By hiring a professional advisor that takes the time to evaluate all of the “moving parts “ of a clients investment portfolio can increase the likelihood of achieving a diversified portfolio.