Choosing Diversified Investments for Your Portfolio

Choosing what you should invest your hard-earned dollars in can seem like a daunting task to the beginner. Technical terms and fine print details can make the process of balancing risk with reward a difficult subject. However, there are a few simple rules which even a novice investor may follow to lessen the risk and ensure he is placed correctly in the current market.

No matter whom you are, how much money you have, or how long you have until retirement, your portfolio should always remain well-diversified. Savings accounts, bonds and stocks should all be included in some form, and no one type of investment should allocate more than 30% of your total investment funds.

Investing in commodities is risky business and not for the lighthearted. This type of investing requires close monitoring of the daily market, and the ability to move very quickly. There is a lot of money to be made in commodities, but the practice is best left to professional investors only.

Real Estate Investment Trusts (REITs) provide ample opportunity to invest in actual property that is not as volatile. Mortgage-backed securities will vary in value and risk, but in down markets can be bought at a discounted rate.

Mutual funds which focus on real estate investing may also be a good option. Generally, mutual fund managers will continually diversify the fund's portfolio, causing your money to always do the same. This reduces some of the guesswork out of investing, but mutual funds should also be chosen wisely.

REITs invest in real estate assets such as strip malls, commercial buildings and residential mortgages. There are three types of REITs, including equity REITs, hybrid REITs and mortgage REITs.

Equity REITs may invest or own real estate that is rented out and turn a profit for investors. Mortgage REITs are in the business of lending funds to developers or owners at a fee, and hybrid REITs are a combination of equity and mortgage types.

Real estate options are also available as an investment vehicle. These options are offered instead of a formal purchase agreement, and include several contingencies. The reason these options are given is to officially take the house off the market to other buyers for a specified time limit. If the financing is not secured by that time, the investor will lose their earnest funds which are usually a percentage of the agreed-upon sale price.

So, how do investors make money with these options? Well, they offer an option on a home, and try to find a new buyer during the interim that will pay more than the original sale price. This is risky business and should not be utilized unless you already have several years of experience in real estate investing and a network of professionals to deal with.

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Of course, you can always invest in property as part of your portfolio as well. Although this carries some risk and requires financial obligations, this is something that can be physically watched over for the faint-at-heart.

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