Estate Planning Pitfall

A significant portion of your wealth is concentrated in a single stock

It has been said repeatedly: Don't put all your eggs in one basket. Yet many individuals often disregard this adage. And it comes back to haunt them or their heirs at a future date.

If you've built up a substantial nest egg over the years, it's likely you feathered it through various investments. This growth may have been fueled by one or two specific stocks. For instance, if you acquired Amazon or Apple before those stocks took off, you may be sitting on a goldmine.

But that doesn't mean you should limit your investment holdings to a handful of prior winners. First, be aware that past performance isn't a guarantee of future results. Second, if you're committed to just one or two stocks, your risk exposure is off the charts. If one were to tumble, it could trigger a financial catastrophe.

This is especially true given the current uncertain economic environment. Investors have already seen wide swings in the stock market thus far in 2020. Depending on how the rest of the year goes — in addition to the election in November — the rollercoaster may continue or the market might surge. Possibly, though, it will hit a tailspin. And, over time, it could be all three.

Diversification is one of the keys to risk-averse investing. This is the process of keeping different kinds of investments — such as stocks, bonds and cash equivalents — in your portfolio. It also means you should maintain a mix of investments in different sectors and industries as well as thinking globally. This reduces overall risk.

Be aware that even diversification can't protect against losses in a declining market. But you'll want to do all you can to keep as much of your nest egg intact so that you can have more to pass on to loved ones after you're gone.

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