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Thought For the Month

"There is No Substitute for a Diversified Portfolio"

We've all heard the saying, "Don't put all your eggs in one basket." The underlying lesson this old adage attempts to impart is one of diversification.

As it relates to mutual funds, diversification is a risk management technique that groups a variety of investments within a single portfolio. It is designed to minimize the impact of any one security on overall portfolio performance.

Having a breadth of participation in the portfolio helps to spread risk and protect against any significant loss of principal in the event of unforeseen problems with any particular security.

Of course, single-state tax-free bond funds, such as those within the Aquila[sm] Group of Funds, are, by definition, somewhat of a limited investment in terms of diversification. The securities making up the portfolio are all municipal bonds issued by its respective state. However, the Aquila[sm] Group of Funds still attempts to diversify your investment to the most practicable extent possible.

First, there is the use of a number of issues. Each fund has over 100 separate securities in its portfolio. Next, there is diversification among different types of municipal projects - universities, basic services, utilities, health care, pollution control, etc. - so that there is no undue concentration in any one type of municipal project. And, finally, there is diversification achieved through geographic representation throughout various cities, counties, and communities within each respective state.

Such diversification by number of issues, by geographic distribution, and by variety of projects lends itself to not having all your eggs in one basket and heeding the lessons of diversification. In summary, we believe there is no substitute for diversification as a strategy for protecting your investment.

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