Smart Diversification

INVESTMENT STRATEGY

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Smart diversification is an investment strategy that combines various types of assets within a portfolio to help reduce the risk of the total portfolio. In a turbulent market, the positive returns of some investments could offset the losses of other investments. However, this is only possible if the investments have low, inverse, or no correlation with each other. If the investments are highly correlated, they tend to respond in a similar way to market forces. Developing a diversified portfolio helps investors mitigate investment risk. A robust portfolio includes several methods of diversification. Some of the common ways to diversify a portfolio are by asset class, sector, individual security and geographic location.

1. ***Diversify by Asset Class:*** Asset classes are categories of investments that have similar characteristics and are subject to the same laws and regulations. A diversified portfolio usually consists of a broad range of asset classes. The asset classes are allocated as a percentage of the total portfolio, depending on the investor's risk tolerance.

Some examples of asset classes include:

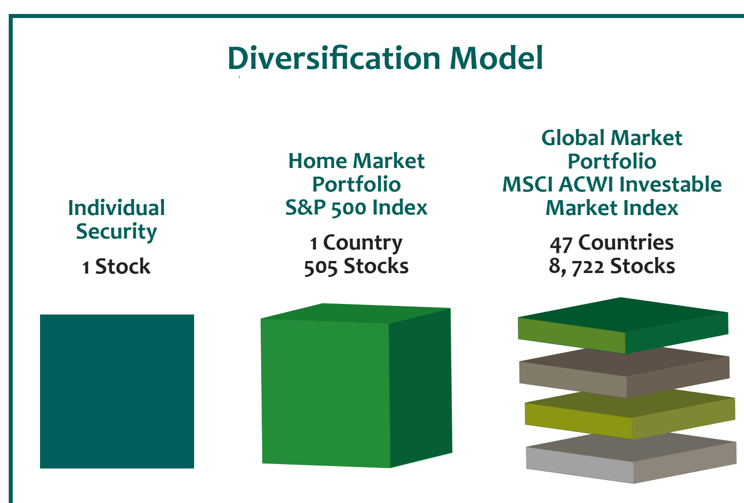
- ***Equities:*** stocks or shares in companies that are publicly traded
- ***Fixed Income:*** government bonds or corporate fixed-income debt instruments
- ***Liquid Real Assets:*** real estate (buildings and land)
- ***Commodities:*** wheat, corn, precious metals, oil and gas
- ***Cash and Cash Equivalents:*** Treasury bills, certificates of deposit (CDs) or money-market vehicles

Economic Sectors			
Financials	Materials	Telecom	Industrials
Utilities	Energy	Consumer Staples	Consumer Discretionary
Real Estate	Healthcare	Technology	

2. ***Diversify by Economic Sector:*** Investors can further diversify by economic sector within an asset class. A sector is a group of publically traded companies that share the same broad focus, such as financials, energy or healthcare. Diversifying across sectors helps investors to potentially reduce sector concentration risk.

3. ***Diversify by Individual Stock:*** Another way to diversify is through owning a large range of individual stocks across various sectors. It is challenging to manage hundreds of stocks, so investing in mutual funds or index funds offers the investor a more efficient way to diversify a portfolio with hundreds or thousands of stocks.

4. ***Diversify by Geographic Location:*** Diversifying globally can broaden your investment universe. International securities from both developed and emerging markets offer investors another way to diversify. International markets may present additional investment choices which are less correlated with domestic markets.



Adapted from Dimensional Fund Advisors

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