



What is Diversification?

One of the most effective means of reducing the different types of risk is to diversify your portfolio. You can reduce the volatility by ensuring that it is not totally exposed to any one type of investment or investment approach.

No one type of security, asset class, investment strategy, or investment manager provides the best performance over all time periods. So a range of investments should reduce the risk of the portfolio experiencing drops in performance across the board, at the same time. This is simply because one asset class or manager may perform well to counter the poor performance of another.

Diversification can be implemented in 3 distinct ways:

Diversification Across Asset Classes

The major asset classes – shares, private markets, property, bonds and cash – perform differently under different market conditions. Historically, no single asset class has consistently outperformed all others every year. So by investing across a variety of asset classes you may be able to reduce the volatility of your portfolio return.

Diversification Across Markets and Regions

It is also valuable to spread your exposure within each asset class across a wide range of countries, currencies, industries and stocks. This global approach ensures that your investment is not narrowly concentrated in a particular region or industry, and helps to reduce the impact of a regional or industry downturn.

Diversification Across Investment Management Styles

Different Investment Management Styles also tend to excel at different times under different economic and market conditions. By combining a range of investment managers with complementary investment styles you may be able to neutralise the bias to any one style in each asset class.

In addition, it is important to note that despite displaying the potential for greater long-term growth, growth assets bring with them a higher risk of volatility than defensive assets.