



Latest

Is Your Wealth Really Diversified: The Hidden Concentration Risks HNWIs Overlook

Insight | by Jamie Tulip



Latest



Holding a wide mix of assets across sectors, funds, and geographies may appear diversified at first glance. However, many High-Net-Worth Individuals (HNWIs) unknowingly carry significant concentration risk. These hidden exposures can stem from long-held legacy assets, an emotional preference for familiar investments, or a reliance on a single sector, region, or currency.

This article explains why surface-level diversification may not be enough. It explores the most common blind spots found in HNWI portfolios and introduces a structured approach that can help identify and address overexposure. This is especially relevant for internationally mobile individuals who face added complexity in their financial planning.



Latest

Strategic insights from our experts, our latest research and news, and upcoming events.

While diversification is designed to reduce risk, true diversification goes beyond simply holding a range of assets. It requires a considered balance across asset classes, regions, currencies, sectors, and liquidity levels. A well-diversified portfolio considers how each asset performs under different market conditions, how correlated the holdings are, and how each component contributes to your overall objectives.

For instance, owning multiple equity funds may not reduce risk if they all focus on the same sector or region. Similarly, holding property across several cities may still be concentrated if they are all located in the same country or exposed to the same economic cycle. Effective diversification considers how assets interact with one another, helping to manage volatility and build a more resilient foundation for wealth preservation.

Where Concentration Risk Hides in HNWI Portfolios

Despite having significant wealth to diversify effectively, high-net-worth individuals can typically hold concentrated positions that could threaten their long-term financial security. Understanding these common pitfalls is the first step toward building a more resilient portfolio.

1. Over-reliance on a Single Asset Class

Many HNW investors, acting without the support of a qualified financial planner, tend to gravitate toward certain asset classes over others, typically based upon past success or familiarity:

Equities: Frequently dominant in portfolios due to long-term return potential, some investors hold disproportionately high equity allocations that leave them vulnerable to market downturns.

Property: Often viewed as stable and tangible yet concentrating substantial wealth in real estate (particularly within a single region) can significantly increase risk during property market corrections.



Latest

retain a substantial portion of their wealth in USD-denominated assets despite having relocated internationally, potentially to a succession of different countries.

Examples of location-based bias:

Home Country Bias: A systematic preference for investments in one's country of origin, often representing a disproportionate share of total portfolio value.

Familiarity Bias: A tendency to favour well-known brands or companies, often from one's country of origin or prior residence. This can lead to unintentional geographic clustering in a portfolio and reduce true global diversification across developed and emerging markets.

3. Sector Overexposure

Concentrating investments heavily in one industry increases vulnerability to sector-specific shocks. The 2022 technology sector correction demonstrated how even seemingly "diversified" portfolios with holdings across major technology companies experienced significant declines as companies within the same sector often moved in tandem, illustrating how sector correlation can eliminate the benefits of stock-level diversification.

4. Liquidity Concentration

A frequently overlooked risk occurs when substantial wealth becomes tied up in illiquid assets. HNWIs with significant portions of their net worth in property, private equity, or restricted company shares may find themselves unable to capitalize on market opportunities or meet unexpected liquidity needs without selling at unfavourable times.

5. Legacy Holdings and Emotional Attachment

Inherited assets, company share schemes, or long-held investments often remain untouched due to sentimental value or perceived tax complexity. These positions may remain unreviewed, which can lead to portfolio imbalances over time that can represent substantial portions of total wealth in single positions.



Latest

False Sense of Diversification: A high number of holdings does not guarantee low correlation. Many portfolios contain numerous different assets that behave similarly under market stress, providing little actual risk reduction.

Overconfidence Bias: Success in building a business or excelling in a particular investment area can lead to overconfidence in broader investment decisions, causing investors to maintain concentrated positions longer than is prudent.

Siloed Advisory Relationships: Working with multiple specialists – such as tax advisors, investment managers and property consultants - who don't co-ordinate or communicate effectively with each other can create significant blind spots in your overall portfolio construction and risk assessment.

Neglected Reviews: Without systematic periodic reviews and rebalancing, gradual shifts in asset values can create unintended weightings. A position that started as a modest portion of a portfolio can grow to represent a disproportionately large portion of your portfolio through appreciation alone, fundamentally altering the risk profile.

A Framework for Identifying Hidden Concentration Risk

Step 1: Review Correlation

Work with a qualified financial planner to assess how your holdings behave in relation to one another. Highly correlated assets may suggest that diversification is more limited than it appears.

Step 2: Map Geographic and Currency Exposure

Analyse where your assets are located and in which currencies they are held. For example, British expats holding assets in GBP may benefit from diversifying into USD and EUR-denominated holdings. This can help manage [currency risk](#) and align future income and growth assets with expected spending needs — particularly if they are currently resident in the US and plan to retire in the EU. As always, individual tax position and financial objectives should guide the approach.

Step 3: Examine Sector Allocation



Latest

A significant decline in one or more sectors (such as technology, real estate, or energy)

Currency depreciation (e.g. GBP relative to CHF or USD)

Market volatility triggered by inflation or rate hikes

Step 5: Consult a Cross-Border Planner

For internationally mobile HNWIs, the cross-border aspect of financial planning introduces an additional layer of complexity, due to the way in which different assets and the location of those assets can be taxed. For example, expats in the US need to be acutely aware of their international investments and assets being regarded as PFICs - and taxed punitively by the IRS as a result.

A dual-qualified adviser can help you to understand how [tax rules](#) across each relevant jurisdiction could impact how your portfolio is taxed, dependent on your specific circumstances.

Time to Look Beneath the Surface

Many HNWIs believe they are diversified because they hold a mix of assets. When you dig deeper, structural imbalances and outdated holdings often reveal hidden risks that may not be evident at first glance.

At Forth Capital, our qualified financial planners work with internationally mobile HNW clients to help create structured and diversified portfolios - helping them to target sustainable growth, optimise their tax exposure, and address cross-border estate planning challenges.

If you'd like to schedule a consultation to discuss your financial planning, wealth strategy, or pension arrangements [**get in touch today.**](#)

