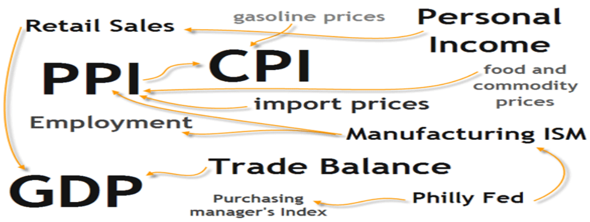
PORTFOLIO DIVERSIFICATION

ECONOMICS PERSPECTIVE



A portfolio should be viewed as well diversified if the assets are affected differently by changes in economic variables, such as interest rates, exchange rates, inflation rate, etc. As a result, the portfolio is less likely to experience extreme changes in value this way, risk is reduced.

For instance, let's say you hold a portfolio made up of only agricultural goods many of which are exported outside the US. If the currency in the receiving country appreciated, you might end up losing a lot. However, having some stocks in commodities that are not linked to exports of goods would help mitigate the loss.

STATISTICS PERSPECTIVE

In statistical terms, a well-diversified portfolio contains assets whose rates of return have very low or negative *correlations* with each other

For instance, a portfolio consisting exclusively of oil stocks would not be well-diversified, since changes in the price of oil would have a huge impact on the portfolio's value. Adding agricultural, automobile or insurance stocks to the portfolio would eventually reduce the risk.

Geographic perspective

Taking geography into portfolio diversification, a diversified portfolio would consider assets that would be affected differently should there be any natural hazard or changes in a given location where the asset's' performance is more pronounced.

For instance, on In March 2021, the Suez Canal was blocked for six days after the grounding of Ever Given, a 20,000 TEU container ship. If you hold a portfolio of only maritime transport assets you would have made a colossal lost. A well-diversified portfolio would consider some assets in air or land transport or even forex.