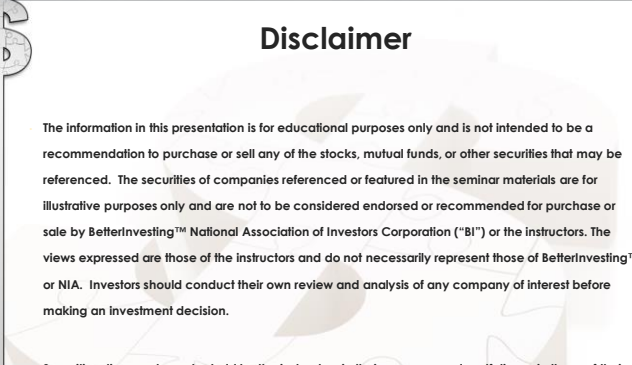




Diversity In A Portfolio

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2

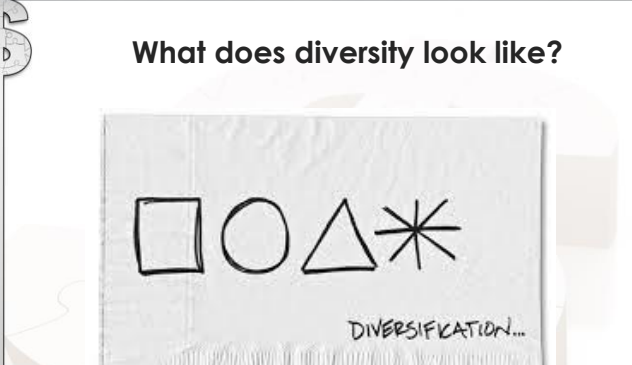


Why do we need diversity?


Diversity is a way to reduce risk while improving overall portfolio performance

Diversity is accomplished by holding non-correlated assets


3



What does diversity look like?



4

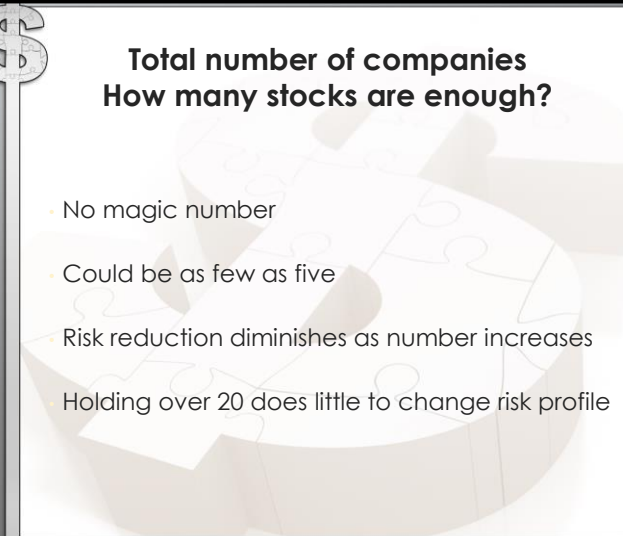


\$ **What ways can a portfolio be diversified?**

Diversify by:

- Total number of companies
- Percentage of each company
- All in different sector and industries
- Size of the companies

5

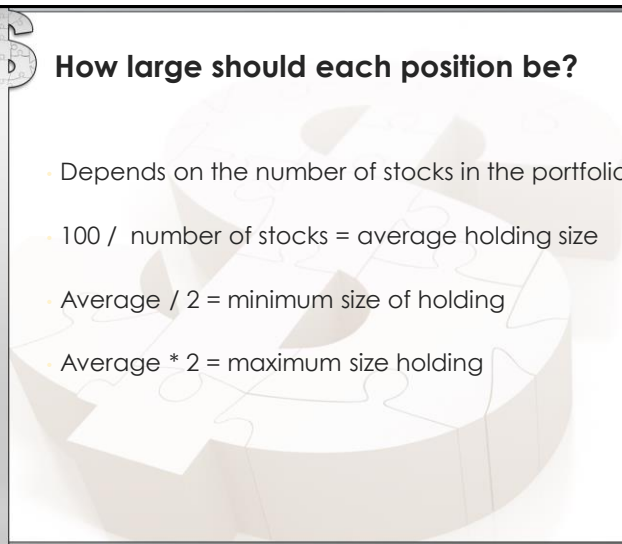


\$ **Total number of companies**
How many stocks are enough?

- No magic number
- Could be as few as five
- Risk reduction diminishes as number increases

Holding over 20 does little to change risk profile

6



\$ **How large should each position be?**

- Depends on the number of stocks in the portfolio
- $100 / \text{number of stocks} = \text{average holding size}$
- $\text{Average} / 2 = \text{minimum size of holding}$
- $\text{Average} * 2 = \text{maximum size holding}$

7



\$ **Diversity by sector and industry**

- Should have representation in five of the eleven market sectors
- If you hold more than one company in a sector, those companies should be in different industries

The objective is to hold companies that do not compete in the same businesses.

8



Diversity by size of company

Better Investing Recommendations

- 25% of portfolio in small companies (< \$1 Billion in revenues)
- 50% of portfolio in medium companies (> \$1 Billion and < \$10 Billion in revenues)
- 25% of portfolio in large size companies (> \$10 Billion in revenues)


9



To Recap

- A portfolio with between 10 – 20 stocks
- No individual stock with less than ½ of the average
- No Individual stock with more than 2 times average
- Representation in at least five sectors
- No holdings in the same industry within a sector
- A blend of small, medium, and large companies with a focus on medium sized companies

10



Additional resource

- Presentation by Cy Lynch at the Rocky Mountain Chapter 2015 annual meeting:
<http://rmchapter.org/doc/PortfolioCenteredDecisionMaking.mp4>

11

Questions? Need More Information?



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12