



Diversification (finance)

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01

**In finance,
diversification is the
process of allocating
capital in a way that
reduces the exposure to
any one particular asset
or risk.**

02

A common path towards diversification is to reduce risk or volatility by investing in a variety of assets.

03

Conversely, the diversified portfolio's return will always be higher than that of the worst-performing investment.

04

Thus, in an equally weighted portfolio, the portfolio variance tends to the average of covariances between securities as the number of securities becomes arbitrarily large.

05

**If one buys all the
stocks in the S&P 500
one is obviously
exposed only to
movements in that
index.**

06

Governments often impose legal requirements that some types of investment funds (mutual funds, ETFs, UCITS, etc.) must maintain some level of diversification.

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