



MAGELLAN EXPLAINS: Diversification

Diversification is an important concept that can significantly impact the success of your investment journey.

While the term might sound complex, its core principle is simple and can help create a robust and resilient investment portfolio.

WHAT IS DIVERSIFICATION?

Investment diversification is a strategy that involves spreading your investments across different assets and asset classes. The goal is to reduce some of the risks associated with investing by avoiding over-concentration in any single company, industry or currency. Allocating funds amongst various assets aims to minimise the impact of individual asset performance on an overall portfolio.

The saying “don’t put all your eggs in one basket” perfectly captures the essence of diversification. If you place all your funds into a single investment, you can expose yourself to significant risk. If that investment performs poorly, your entire portfolio could suffer. Diversification on the other hand, helps cushion your investments from extreme market volatility and can provide a safety net during turbulent economic times.

MANAGING RISK

The primary advantage of diversification is its ability to reduce the overall risk of a portfolio. By spreading investments across multiple assets, the potential negative impact of a single asset’s decline is mitigated by the performance of other assets. Having investments with low correlation, means that if one investment underperforms, the overall impact on your portfolio is less severe.

Investment diversification may not only limit downside risk but may also have the potential to enhance overall returns. By including various assets in a portfolio, it could capture gains from different sectors and industries that experience growth over time. This balanced approach may help investors achieve more stable and consistent returns in the long run.

MANAGING MARKET VOLATILITY

Markets can be volatile, experiencing ups and downs due to economic factors, geopolitical events, or investor sentiment. A diversified portfolio can act as a shock absorber, buffering against sudden market shifts and providing peace of mind even in times of uncertainty. Diversifying an equity portfolio across a range of different industry sectors such as financials, retail, technology and healthcare may be the best defence in fluctuating markets.

AVOIDING HOME BIAS

We believe avoiding home bias investing is essential for maintaining a diversified and balanced investment portfolio. Home bias refers to the tendency of investors to allocate a significant portion of their investments to assets within their own country or region, for example, investing only in Australian assets and overlooking international opportunities. By diversifying across various regions and markets, investors can reduce the risks associated with being overly dependent on the performance of their home country's economy. Taking a global perspective enables exposure to different industries, currencies, and economic cycles, potentially leading to higher returns and reducing the impact of local market fluctuations.

REBALANCE REGULARLY

Over time, the performance of assets may deviate due to market movements. Rebalancing a portfolio can help maintain the desired level of diversification, reducing the risk of becoming overexposed to any single asset. This helps to prevent the portfolio becoming too concentrated in one area and can minimise potential losses during market downturns.

We believe investment diversification is a cornerstone of investing. By spreading your investments across different assets and asset classes, you may reduce risk, maximise returns, and navigate market volatility more effectively. Implementing a well-diversified portfolio tailored to your specific goals and risk tolerance can pave the way for a more secure and comfortable financial future.

While diversification is not a guarantee against losses, it may offer a robust approach to enhancing your chances of success in investing.

Magellan believes in investing in high-quality companies over the long term.

At Magellan, we are experts in global investing and invest in the world's best companies to grow and safeguard the wealth of our clients. Our experienced investment team aim to construct portfolios that generate attractive returns over the long term, with adequate diversification seeking to ensure that investors are not overly correlated to any single company, industry-specific or macroeconomic risk.



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