

# The 5 Pillars of Portfolio Diversification

Prepared by: Affin Hwang Asset Management



**D**iversification is a time-tested investment strategy designed to reduce risk and smoothen returns. But, it's more than just spreading your investments in different baskets just for the sake of it. You also need a coherent diversification plan to ensure that you reap its full benefits. Here's a closer look at the 5 pillars of diversification that investors should always consider when building their portfolio.

**Asset Class** / The first pillar is for investors to diversify by asset class (e.g. equities, fixed income, gold). Different asset classes have varying degrees of correlation across market cycles which allows investors to offset losses in one asset class with gains in another. For instance, gold which is a safe haven asset would perform better in down markets which can help cushion portfolio losses.

**Country** / Diversifying geographically can help investors spread their investment risk globally, thus avoiding undue exposure in a single country or region. Developed and emerging markets also tend to be at different stages of the economic cycle, thus insulating investors from the capricious nature of boom-bust cycles.

**Sector** / Beyond that, investors should also diversify across different industries which operate in their own distinct business environments that have their own risk factors. For example, the aviation industry is susceptible to changes in oil prices or geopolitical

flashpoints that can hurt demand for travel. In such a situation, stay-at-home stocks like streaming providers could do better as consumers stay cooped up at home.

**Currency** / Currency risk is also a factor that can impact overall performance returns. For example, a US-based investor who invests in Bursa Malaysia will yield lower returns when the value of the investment is converted back from MYR to the USD. Thus, it is also important for unit trust investors to consider hedged or unhedged classes when building their portfolio to shield against unfavourable currency fluctuations.

**Strategy** / Lastly, an investor should also consider diversifying across different types of strategies within the same asset class. For example, thematic equity funds which focus on secular long-term trends like sustainability or demographic changes provide investors a unique edge over more conventional offerings.

## [Book an Appointment](https://affinhwangam.com/get-in-touch/book-an-appointment)

Build a portfolio that is truly diversified in all sense. Visit the link below or scan the QR code.

<https://affinhwangam.com/get-in-touch/book-an-appointment>

Scan here:



**Disclaimer:** This content has been prepared by Affin Hwang Asset Management Berhad (hereinafter referred to as "Affin Hwang AM") specific for its use, a specific target audience, and for discussion purposes only. All information contained within this content belongs to Affin Hwang AM and may not be copied, distributed or otherwise disseminated in whole or in part without written consent of Affin Hwang AM. The information contained in this content may include, but is not limited to opinions, analysis, forecasts, projections and expectations (collectively referred to as "Opinions"). Such information has been obtained from various sources including those in the public domain, are merely expressions of belief. Although this content has been prepared on the basis of information and/or Opinions that are believed to be correct at the time the contents was prepared, Affin Hwang AM makes no expressed or implied warranty as to the accuracy and completeness of any such information and/or Opinions. Affin Hwang AM and its affiliates may act as a principal and agent in any transaction contemplated by this content, or any other transaction connected with any such transaction, and may as a result earn brokerage, commission or other income. Nothing in this contents is intended to be, or should be construed as an offer to buy or sell, or invitation to subscribe for, any securities. Neither Affin Hwang AM nor any of its directors, employees or representatives are to have any liability (including liability to any person by reason of negligence or negligent misstatement) from any statement, opinion, information or matter (expressed or implied) arising out of, contained in or derived from or any omission from this presentation, except liability under statute that cannot be excluded.