# The 5 Pillars of Portfolio Diversification

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Diversification 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.

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