

WEEK 4

Diversification Checklist

What true diversification looks like and how to check your portfolio.

Diversification means spreading your investments across different assets so that if one performs poorly, others may perform well, reducing your overall risk.

Think of it like this: if you put all your eggs in one basket and drop it, you lose everything. But if you spread your eggs across multiple baskets, dropping one basket means you still have eggs in the others.

What diversification IS vs ISN'T

DIVERSIFICATION IS	DIVERSIFICATION ISN'T
Owning companies across different countries	Owning 5 different UK bank stocks
Investing in different industries (tech, healthcare, finance)	Owning 10 different tech stocks
Having a mix of stocks, bonds, and other assets (like gold)	Owning 20 similar growth funds
One global index fund (thousands of companies)	Owning many funds that all hold the same stocks

Your diversification checklist

Use this checklist to evaluate if your portfolio is properly diversified. Tick all that apply.

1. Geographic diversification

- I have exposure to companies outside the UK
- I have exposure to developed markets outside the UK (US, Europe, Japan)
- I have exposure to emerging markets (China, India, Brazil)

2. Sector diversification

- My portfolio spans multiple sectors (not all tech, not all finance)
- No single industry is more than 30% of my portfolio

3. Asset class diversification

- My asset mix matches my risk tolerance from Week 3
- If I'm within 10 years of needing this money, I hold something beyond stocks (bonds, gold, or another stabiliser)

4. Fund overlap

- My funds don't all hold the same top 10 companies
- I'm not paying multiple fees for similar exposure

5. Company concentration

- No single company is more than 5% of my total portfolio

- If I own individual stocks, they are additions, not the core
- One company going bankrupt would NOT significantly hurt my portfolio

The hidden problem: fund overlap

Many investors think they are diversified because they own 5 different funds. But if those funds all hold Apple, Microsoft, Amazon, and Google, you are NOT diversified, you just own the same companies multiple times and pay extra fees.

Fund	Top holdings include...
FTSE Global All Cap	Apple, Microsoft, Amazon, Nvidia, Google, Meta
S&P; 500 Index	Apple, Microsoft, Amazon, Nvidia, Google, Meta
Invesco QQQ (NASDAQ 100)	Apple, Microsoft, Amazon, Nvidia, Google, Meta

All three funds hold the same top companies. You are tripling down on Big Tech, not diversifying. If tech crashes, ALL three funds crash together.

Common diversification mistakes to avoid

Mistake	Why it's a problem
Fund overlap	You're paying multiple fees to own the same stocks
Over-diversification (20+ funds)	Many funds hold the same stocks. More fees, no extra diversification
Home bias (only UK)	The UK is only 4% of the global market. You're missing 96% of opportunities
Fake diversification (5 tech stocks)	If tech crashes, all 5 crash together. Same sector, same risk
Chasing trends	By the time something is popular, it's often overpriced. Stick to your plan

Key takeaway: True diversification isn't about owning MORE funds. It's about owning DIFFERENT assets. A single global index fund often provides better diversification than 10 overlapping funds. Before adding any new investment, always check: 'Does this add something different to my portfolio, or more of what I already have?'