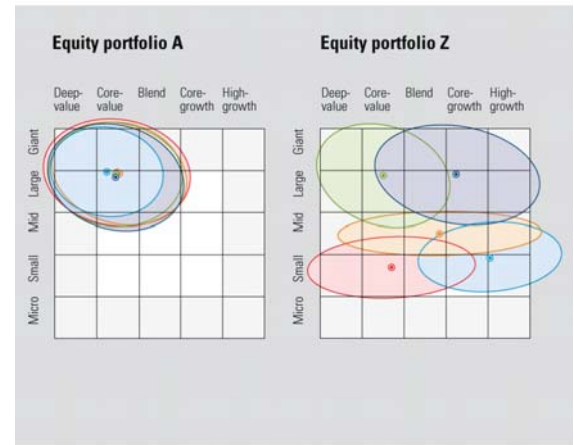


# Exploration in Diversification

- ▶ COMPASS Wealth Management is focused on creating a disciplined structure for each client portfolio.
- ▶ This structure is based on an appropriate asset allocation, as well as a diversified mix of mutual funds.
- ▶ The goal of our approach is to manage portfolio risk exposure, consistent with Portfolio Z in the graph to the right, rather than the undiversified approach depicted by Portfolio A.

Investors seeking a well-rounded portfolio often wonder how many funds they need to reduce risk through diversification. The answer isn't a specific number of funds, but rather the holdings of each fund in the portfolio. If multiple funds in a portfolio have similar holdings, an investor can fail to achieve diversification benefits. Portfolio A and Portfolio Z in the image contain five mutual funds. Each oval represents the ownership zone, which accounts for 75% of the fund's holdings. The funds in Portfolio A overlap, indicating that each fund shares similar style characteristics. Too much overlap defeats the purpose of using multiple funds to create a diversified portfolio. Portfolio Z spans across many styles, so positive performance by some investments can neutralize the negative effect of others. As illustrated, it is important to be aware of the possibility of security overlap when constructing a diversified portfolio.

## More Concentrated Portfolio Versus Diversified Portfolio



Diversification does not eliminate the risk of experiencing investment losses.  
 Source: Funds chosen from Morningstar's open-end database.

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