



WHAT IS a diversified portfolio?

A diversified portfolio invests in each of the major asset classes, in proportions that suit the risk & return profile of the investor. The major asset classes are shares, property, fixed interest and cash. A well-diversified portfolio usually invests in a number of securities in each asset class, directly and/or via managed funds, and typically invests in both Australian and overseas equities.

What is the benefit of investing in a diversified portfolio?

A diversified portfolio reduces investment risk in two main ways:

1. Spreading investments across a broad range of securities reduces the impact that any single poor-performing security has on the overall portfolio.
2. Investing across all major asset classes helps smooth the overall portfolio returns, as the performance of one asset class may offset a downturn in another asset class.

The best of both worlds

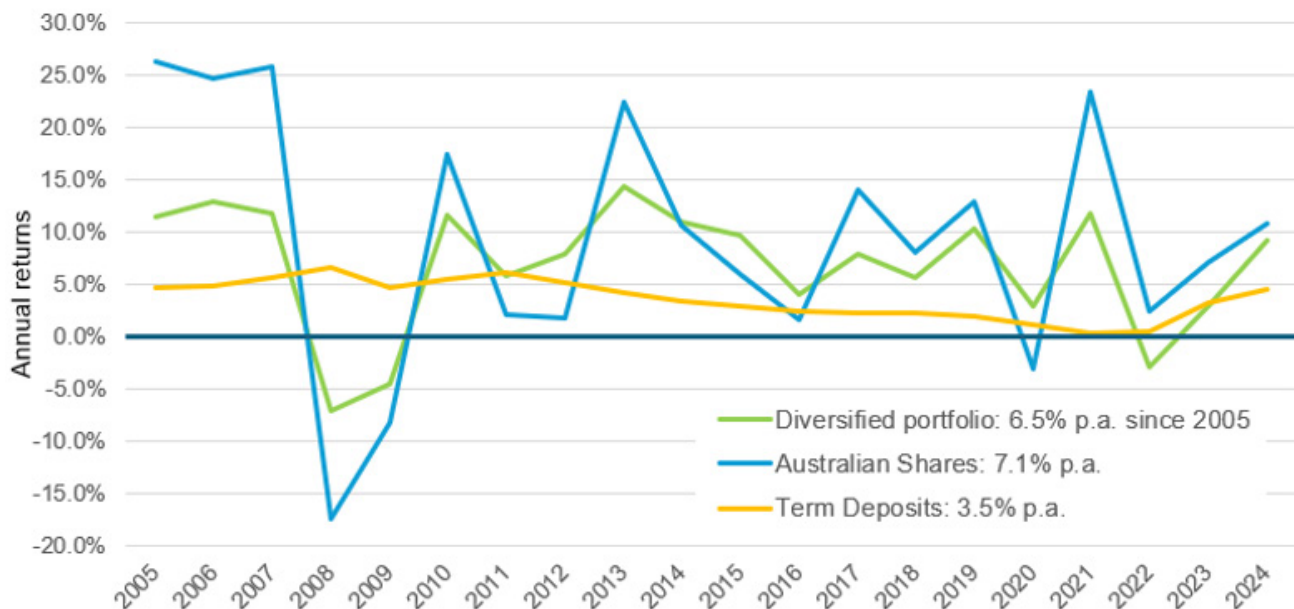
A diversified portfolio offers access to potentially higher returns of shares and property, while also providing the stability of fixed interest and cash.

This can be seen in Chart 1 which compares the volatility and long-term returns of shares versus cash versus a broadly diversified portfolio. As you can see, over the long term, the latter has generated higher returns than cash with less volatility than shares.

↑ Diversified portfolio return	↓ Diversified portfolio volatility
Higher than cash & fixed interest	Higher than cash & fixed interest
Lower than shares & property	Lower than shares & property

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Chart 1: A diversified portfolio smooths your investment returns



Source: Morningstar Direct. Data from 1 Jan 2005 to 31 Dec 2024. Cash: RBA Cash Rate Target. Australian Bonds: Bloomberg AusBond Composite 0+Y TR AUD. Australian shares: S&P/ASX300 TR. Listed Property: S&P/ASX 200 AREIT TR. Diversified portfolio based on a 52% growth/48% defensive allocation based on 20% Australian shares, 20% International shares, 12% property, 43% fixed interest, 5% cash. Note: Tax and fees are not taken into consideration. Income is re-invested. Past performance is not an indicator of future performance.



Case study

Let's say you had \$100,000 to invest on 1 January 2005. Chart 2 shows how much wealth you may have created by investing in certain asset classes by 31 December 2024, assuming income was re-invested.

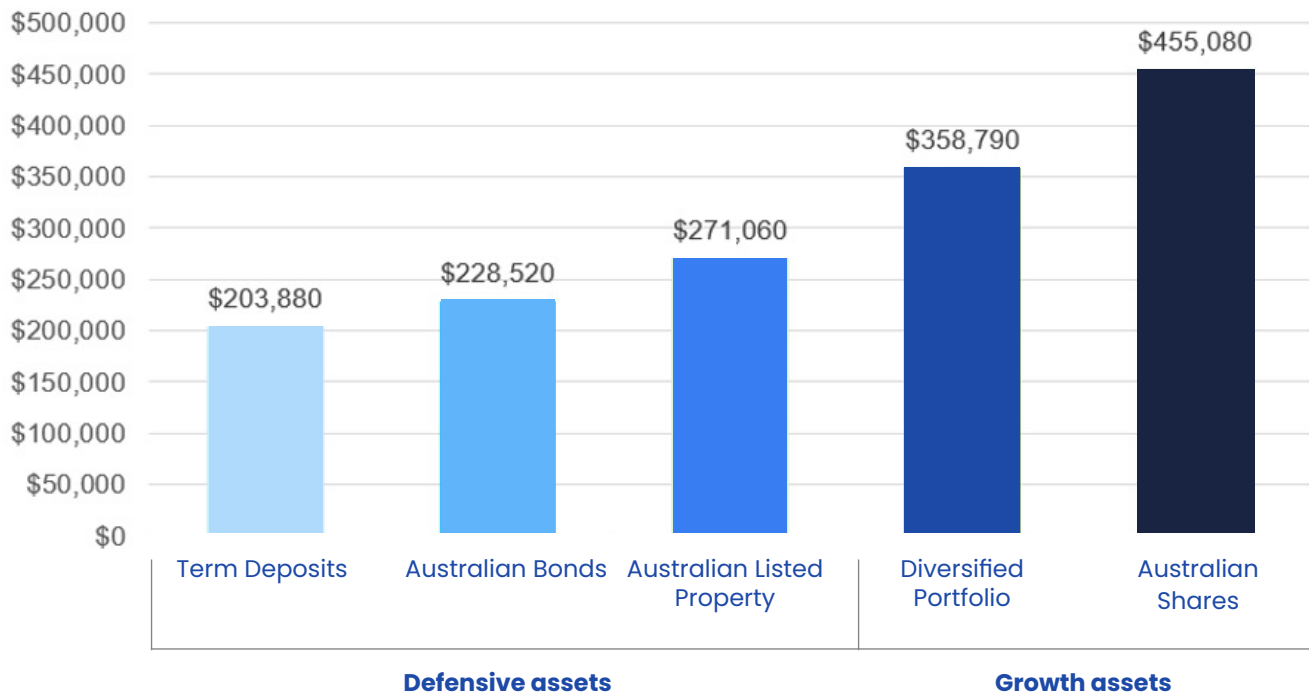
As you can see, if you had invested your money into term deposits, it would have grown to \$203,880.

But if you had invested in a diversified portfolio, you would have \$358,790. It's a \$154,910 improvement.

While this is less than if you'd invested only in Australian shares, the volatility is also much less, as shown in chart 1.

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Chart 2: A diversified portfolio combines security with performance
(1 January 2005 to 31 December 2024)



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