Desjardins Financial Security Independent Network
Desjardins Financial Security Investments Inc.

What is a diversified portfolio?

"Don't put all your eggs in one basket." This adage certainly applies in the area of investing. But how, specifically, can it be put into practice?

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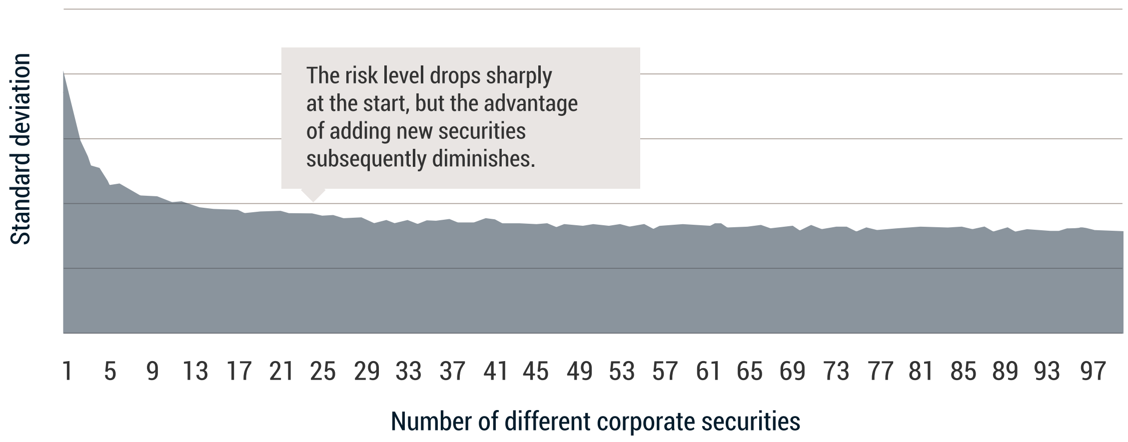
When it comes to investing, diversification plays a part in sound risk management: by spreading your assets among a number of different investments, you reduce your exposure to the risk of underperformance by any one of them.

But simply holding "a number of" investments isn't enough. Here are five basic components of good portfolio diversification.

FIVE WAYS TO DIVERSIFY YOUR INVESTMENT PORTFOLIO

1 Diversify by investing in many different securities

Studies show that a portfolio's risk level, expressed by its standard deviation, gets lower as diverse securities are added.



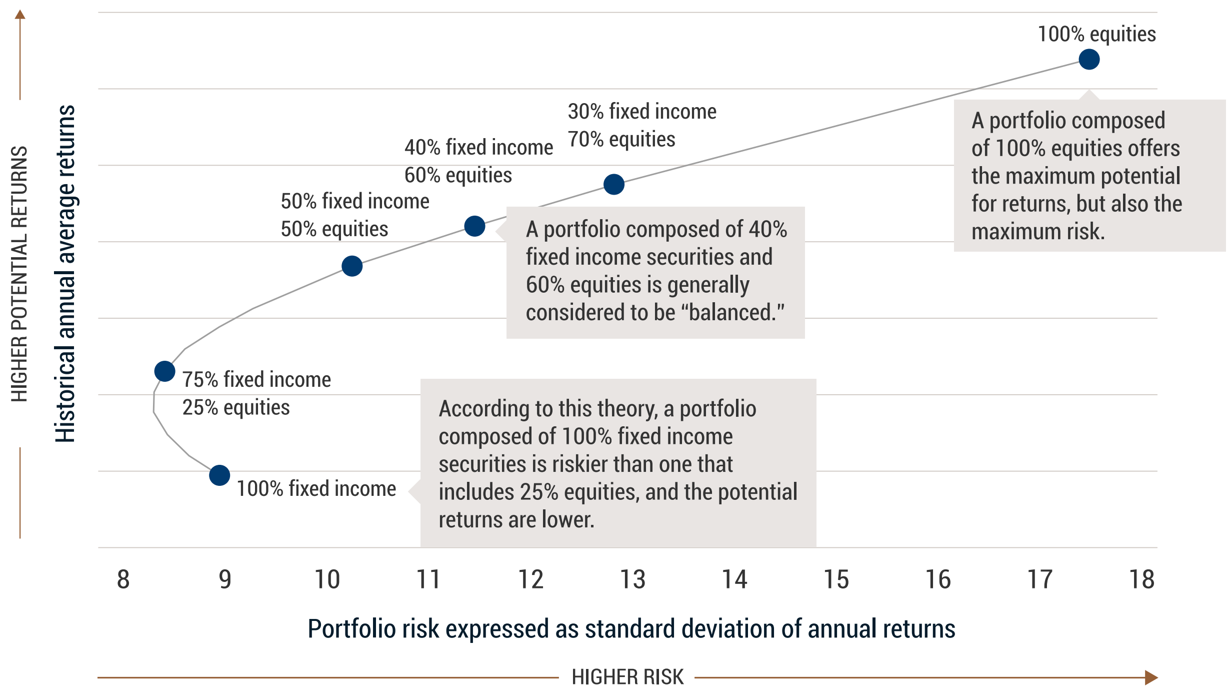
GOOD TO KNOW

- If all of a portfolio's securities are concentrated in the same sector (for example, financials), diversification is not optimal.
- The number of securities held in a mutual fund can range from a few dozen to more than a hundred.

TALK TO YOUR ADVISOR TO ENSURE THAT YOUR PORTFOLIO HAS THE APPROPRIATE LEVEL OF DIVERSIFICATION

2 Diversify by investing in several asset classes

Modern portfolio theory (developed by the economist and Nobel Prize laureate Harry Markowitz) demonstrates that it is possible to optimize the risk-return ratio by incorporating certain proportions of equity and fixed income securities, such as bonds, in a portfolio.



GOOD TO KNOW

- This diversification principle is called "asset allocation." It is based on the observation that, historically, the various asset classes are not fully correlated, i.e., they do not rise and fall in a synchronized way.
- The appropriate asset allocation **for you** depends on your investor profile and your tolerance for volatility as a function of the desired returns.
- Your portfolio statement presents an up-to-date look at your asset allocation.

3 Diversify by investing in a number of different economic sectors

Each stock market tends to reflect its underlying economy. For example, if your portfolio is entirely invested in Canada, it could be highly exposed to the performance of the financial, energy and industrial sectors, but less so to the information technology sector, for example.

Market capitalization of sectors included in the S&P/TSX Canadian market index

Sector	Weight in the index
Financials	31.3%
Energy	18.5%
Industrials	12.7%
Materials	11.0%
Information Technology	5.6%
Utilities	5.2%
Communication Services	5.0%
Consumer Staples	4.2%
Consumer Discretionary	3.4%
Real Estate	2.8%
Health Care	0.3%

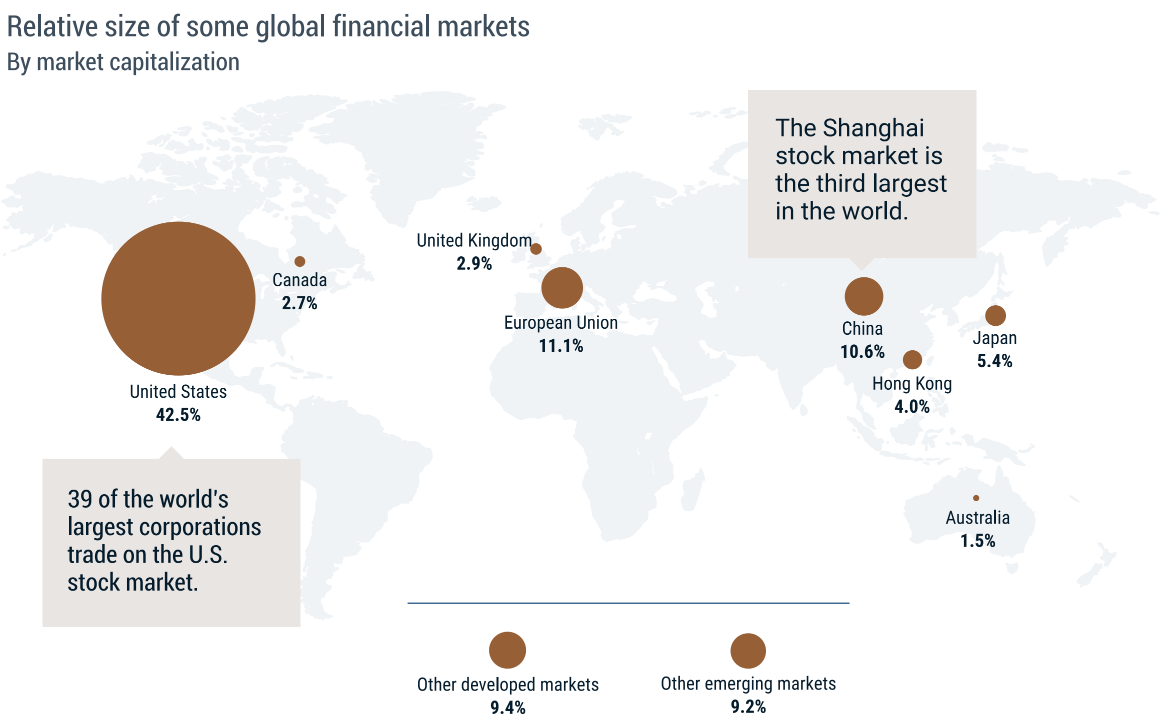
These four sectors alone represent nearly three-quarters of the Canadian stock market.

GOOD TO KNOW

- The market capitalization of the companies included in the Canadian stock market index represents about 70% of the total capitalization of all companies listed on the Toronto Stock Exchange.
- If you invest in several Canadian equity funds, it's a good idea to compare their composition and management approach to avoid a false impression of diversification.

4 Diversify by investing in different geographical areas

By market capitalization, Canada accounts for just under 3% of stock markets worldwide. When you invest part of your portfolio in foreign markets, you expose it to opportunities that are less prevalent on the Canadian stock market.



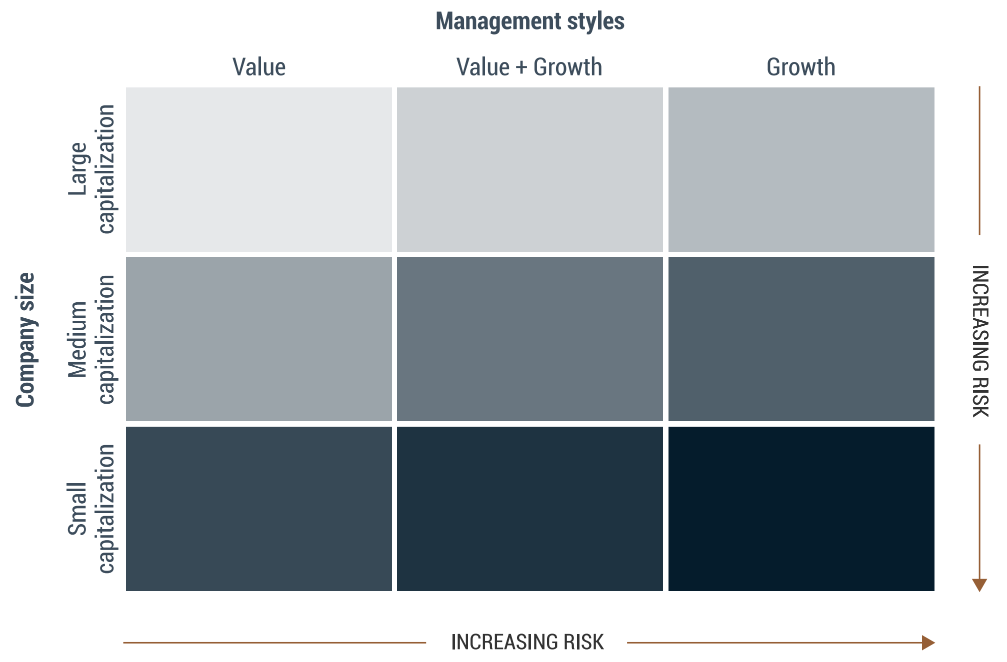
GOOD TO KNOW

- During the tough times in 2022, the U.S. stock market (S&P 500 Index) lost 12.5% of its value, but the Canadian stock market (S&P/TSX Index) only lost 6.1%.
- On the other hand, the U.S. stock market has historically posted higher average annual returns than the Canadian stock market for long periods.
- N.B.: Investing in foreign markets also exposes the portfolio to foreign exchange risk.

5 Diversify by investing in a variety of management styles

When you invest in a mutual fund, the fund manager administers your assets using one of several different management styles. The two most commonly used styles are "value" and "growth."

Principal investment management styles



GOOD TO KNOW

- "Value" managers invest in companies that are trading at prices below their book or intrinsic value.
- "Growth" managers invest in companies whose revenue growth could outstrip that of their same-sector peers or the market in general.
- Depending on the stage of the market cycle, each management style will have periods when it over- and underperforms the other.

BEWARE OF DIVERSIFICATION TRAPS!

- Holding a number of mutual funds could give a false impression of diversification.
- Not all investors need to diversify their portfolios in the same way.
- While helping you to diversify your investments, your advisor must first ensure that your portfolio is appropriate for your situation. This is known as the suitability obligation.

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