Fact sheet

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. Investment in a broad range of securities lessens the impact on a portfolio of one security failing.
2. Investment across the major asset classes tends to smooth the overall portfolio returns, because while one asset class is in a downturn other asset classes should be performing well.

Diversified portfolio return

- Higher than cash & fixed interest
- Lower than shares & property

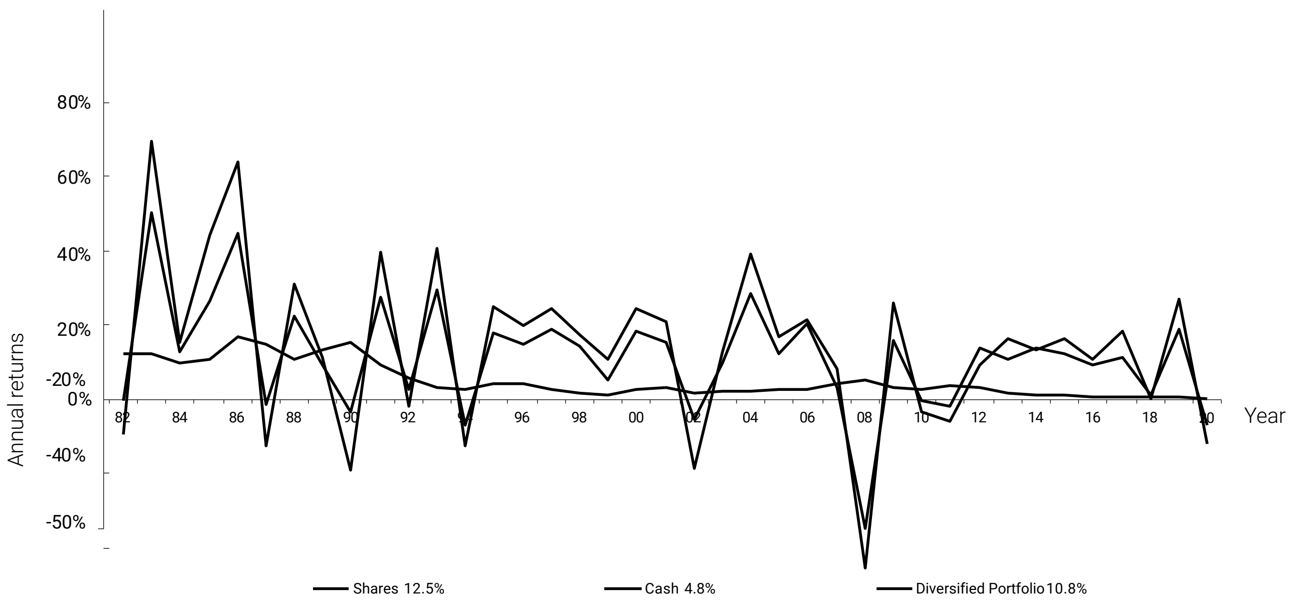
Diversified portfolio volatility:

- Higher than cash & fixed interest
- Lower than shares & property

The best of both worlds

A diversified portfolio gives you access to the potentially higher returns from shares and property, combined with the security 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 that cash with less volatility than shares.

Chart 1: A diversified portfolio smooths your investment returns* - income re-invested



Sources: 1 Jan 1982 – 31 Dec 2020 Cash: RBA cash management accounts at banks ($10,000). Term Deposits: RBA Stats Banks' fixed deposits ($10,000). Shares: The All Industrials Accumulation Index to 31/12/01 and the S&P/ASX XNJAI thereafter.

Property: The S&P/ASX 200 Property Accumulation Index. Diversified1 : Portfolio based on 35% shares, 15% property, 20% cash, 30% term deposits. Note: Tax and fees are not taken into consideration. Income is re-invested. Past performance is not an indicator of future performance.

Case study 2

Let's say you had $100,000 to invest on 1 January 1982. Chart 2 shows how much wealth you may have created by investing in certain assets by 31 December 2020, assuming income was re-invested.

As you can see, if you had invested your money into term deposits, it would have grown to $1,065,089.

But if you had invested in a diversified portfolio1, you would have $4,923,480. It's a $3,858,391 improvement

Chart 2: A diversified portfolio combines security with performance * (start date 1 June 1982) - Income re-invested Value at 31 December 2020