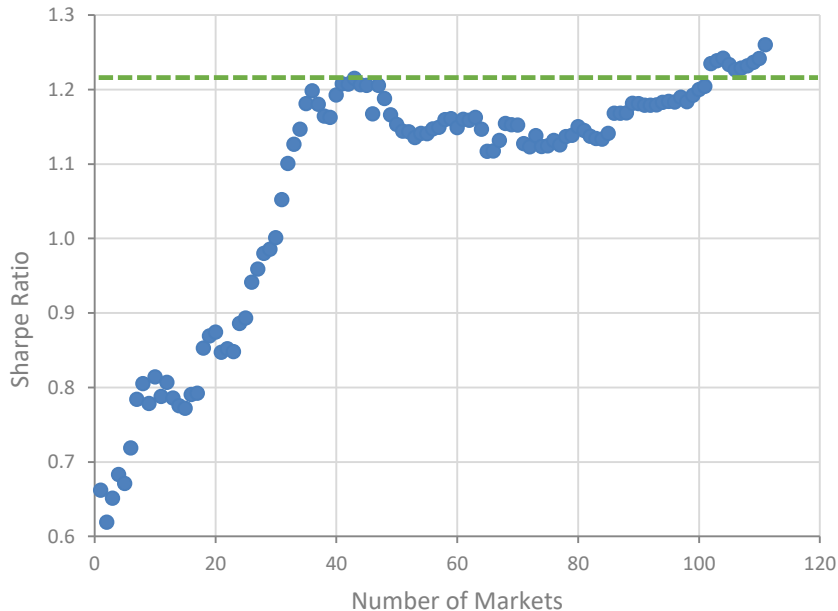


Portfolio Diversification: Accomplishing More with Less

Portfolio diversification is one of the most important and sought-after concepts in investing. A properly diversified portfolio will, on average, produce higher risk-adjusted returns than any single market investment. However, due to market correlations, most investors realize a performance plateau, limiting the benefits of expanding a portfolio with additional markets.

ADDING MARKETS: IMPACT ON CTA PERFORMANCE



THE BOTTOM LINE

Adding markets only benefits performance up to a point, after which there are no additional independent sources of risk: as new markets are added, at a certain point correlated markets are introduced which does not improve the diversification level.

The data shown utilizes the SG Trend Indicator to construct a portfolio of increasing size, starting with a few of the most liquid markets and continuing to add markets in order of liquidity. Please refer to Graham's Research Paper, [Market Diversification](#), for additional details.


PORTFOLIO IMPLICATIONS


- 1. Diversification Plateaus:** Adding new markets doesn't necessarily mean adding uncorrelated markets, and diversification margins diminish.
- 2. Liquidity Decreases:** At some point, adding more markets means adding markets with less liquidity (and liquidity in more exotic markets tends to be less stable).
- 3. Transaction Costs Increase:** As liquidity decreases, bid-ask spreads widen, order books are shallow, and therefore transaction costs increase.
- 4. Leverage Increases:** Because markets aren't 100% correlated, increasing the asset universe also increases the total leverage of the portfolio.
- 5. Heavier Tails:** Increased leverage and potentially unstable diversification can lead to heavier tails.

NEED MORE INFO?

Access the full Research Note here: [Market Diversification](#)

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