



What Counts as Good Diversification?

A simple visual guide for building balanced, resilient portfolios.

Diversification protects you from surprises. It means spreading your investments across different companies, regions, and types of assets so that no single event can dramatically impact your entire portfolio.

Many beginners think owning “many” investments is enough — but true diversification is about what you own, not how much.

This mini-guide helps you understand the difference.

SECTION 1 — WHAT DIVERSIFICATION IS

 **Diversification** means spreading your investments across different areas so you're not dependent on any single company, sector, or region.

It reduces risk, smooths volatility, and helps your portfolio stay steady during uncertainty.

- If one area struggles, others help balance it out.
- No single story controls your financial future.

SECTION 2 — WHAT DIVERSIFICATION IS NOT

-  • Diversification is **not** owning many companies in the same sector.
(e.g., Apple + Microsoft + Nvidia = still tech-heavy)
- Diversification is **not** owning multiple funds that all hold the same companies.
(many US funds overlap heavily)
- Diversification is **not** chasing trends in different industries.
(EVs + AI + biotech ≠ diversified)

True diversification looks at what's inside your holdings — not just how many names you own.

SECTION 3 — VISUAL EXAMPLES

Visual Examples (Good vs Weak Diversification)

These simple visuals show the difference between “looks diversified” and “truly diversified.”

Looks Diversified... But Isn't.

Many beginners own several funds, but all of them hold similar tech-heavy US companies. This creates hidden concentration.

Truly Diversified.

This portfolio spreads across regions, industries, and asset types. One event is unlikely to affect everything at once.

SECTION 4 — TYPES OF DIVERSIFICATION

Types of Diversification

You can diversify in several simple ways. Most calm portfolios use a mix of all three.

 **Asset Class Diversification**

Example: **stocks + bonds**

Purpose: smooths volatility and emotional swings.

 **Regional Diversification**

Example: **U.S. + international + emerging markets**

Purpose: no single country leads forever.

 **Sector Diversification**

Example: **tech + healthcare + industrial + consumer goods**

Purpose: different industries perform well at different times.

Broad index funds automatically include many sectors.

SECTION 5 — BEGINNER CHECKLIST

How to Evaluate Diversification (Beginner Checklist)

- Do I own a mix of U.S. and international companies?
- Are my investments spread across multiple sectors?
- Do I have some exposure to both stocks and bonds?
- Is my portfolio overly concentrated in one story or theme?
- Do I accidentally own the same companies in multiple funds?
- Could one event impact all my holdings at once?

You don't need perfect diversification — you just need broad, simple, balanced exposure.

SECTION 6 — FINAL PRINCIPLE: DIVERSIFICATION = EMOTIONAL SAFETY

Diversification doesn't eliminate risk — it makes risk feel manageable.

It keeps downturns from becoming disasters and helps long-term investors stay calm, steady, and invested.

A well-diversified portfolio lets you breathe.

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