

## Equity Diversification: A bigger egg in a smaller basket

The adage “Don’t put all your eggs in one basket”, is well subscribed to in many aspects of life, and the financial markets equivalent is diversification. Increasing the number of individual securities in a portfolio lessens the marginal impact of each security on the portfolio’s return. Simply put, a portfolio of thirty securities should be less volatile than a portfolio of two securities. This is one of the reasons why market index ETFs such as SPY and QQQ are so popular.

The market capitalization of the US equity market is dominated by a relatively few companies. The largest ten companies in the S&P 500 (SPY) compose 33.8% of the index’s total value. The Nasdaq 100 (QQQ) composes 49.1%. The SPY constitutes roughly 80% of the total US stock market capitalization.

Many companies are included in both SPY and QQQ and this intersection is quite large. The market capitalization percentage of SPY stocks in the QQQ is 75.8%, and the market capitalization percentage of QQQ stocks in the SPY is 45.5%. The premise of owning both indexes to minimize volatility is flawed, as the indexes are extremely similar. It is a bigger egg in a smaller basket.

Triathlon Partners LLC has several approaches to this issue as diversification’s intention is to reduce volatility. Most individual portfolio’s exposure to the indexes is in the ETF, mutual funds, or cash equities. There are financial products with objectives to minimize losses in down markets, including them in your allocation can achieves the real goal to reduce volatility. Structured notes can offer protection often with increased participation. Registered index linked annuities, fixed index annuities and universal life insurance can reduce or limit losses with defined maximum returns. These products can provide a future income stream or death benefit, with possible tax advantages.

Our role as your advisor is to engage, educate and empower. A consultative approach means understanding your concerns and evaluating potential solutions. The process’s goal is to provide you with the knowledge to make the decision that best fits your objectives. Consult with Triathlon Partners LLC to determine if these strategies are appropriate for you, as they are not suitable for all investors.

Regards

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