



The Power of Diversification: Reducing Volatility to Maximize Long-Term Returns

by Jeremy Tate

“At its core, diversification means
not putting all your eggs in one
basket.”



In the world of investing, volatility is inevitable. The market's natural ups and downs can test even the most seasoned investors. However, there's a time-tested strategy that can help smooth out the ride: diversification. As a financial professional with decades of experience navigating market cycles, I've seen firsthand how a well-diversified portfolio can make the difference between short-term panic and long-term success.

Let's first look at why volatility matters. Many investors mistakenly believe that if their portfolio drops by 10%, they only need a 10% gain to get back to even. Unfortunately, that's not the case.

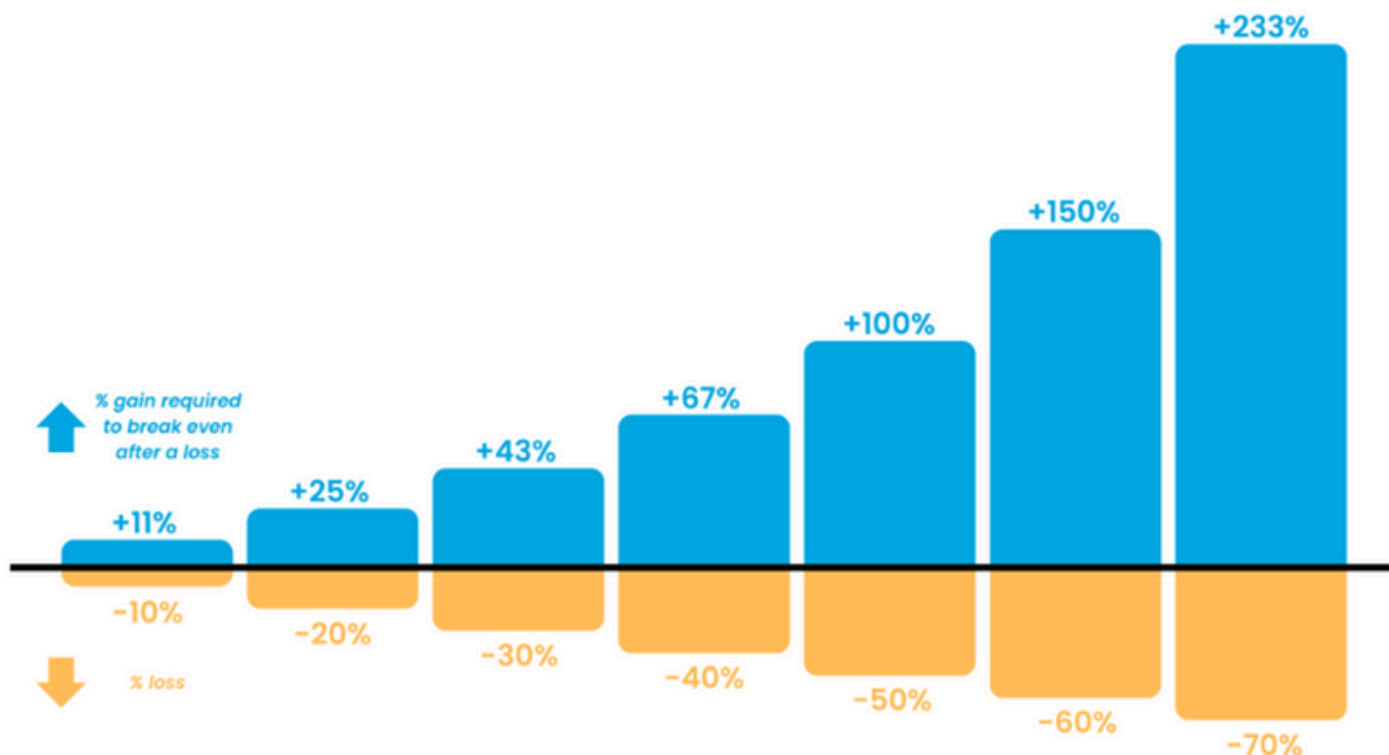


Imagine you invested \$100,000 in a portfolio. If the market declines by 10%, you're left with \$90,000. To recover to your original \$100,000, you would need an 11.1% gain on that \$90,000—because a 10% gain only adds \$9,000, bringing you to \$99,000, still short of breaking even. This is the mathematical reality of loss and recovery: the deeper the loss, the steeper the climb back.

Losses and Required Gains Chart

Loss (%)	Value after Loss (\$100,000 start)	Required Gain (%) to Return to \$100,000
10%	\$90,000	11.1%
20%	\$80,000	25.0%
30%	\$70,000	42.9%
40%	\$60,000	66.7%
50%	\$50,000	100.0%

Percentage return required to fully recover from a loss



The message is clear: the bigger the loss, the harder the recovery.

What is Diversification?

At its core, diversification means not putting all your eggs in one basket. By allocating your assets across different types of investments—stocks, bonds, and alternative assets—you reduce the risk that any single market event can derail your portfolio.

- **Stocks** offer higher potential returns but come with higher volatility.
- **Bonds** provide stability and income, often moving in the opposite direction of stocks during market downturns.
- **Alternative investments**—such as real estate, private debt, private equity, and cryptocurrencies can further smooth out volatility, as they often have low correlation to traditional stock and bond markets.



- **Private debt** offers access to income-generating loans that aren't tied to public markets, often with lower volatility and more predictable cash flows.
- **Private equity** allows investors to participate in private businesses and startups, which may not fluctuate daily with public markets. Though these investments can carry higher risks, they often



exhibit lower short-term volatility compared to public equities, as their valuations are typically based on long-term fundamentals rather than daily trading.

- **Cryptocurrencies**, while highly volatile on their own, can provide an uncorrelated source of return, especially for investors willing to allocate a small percentage of their portfolio to these digital assets.

When these asset classes are thoughtfully combined in a well-constructed portfolio, the result is a reduction in overall volatility. During a market decline, while stocks might drop, bonds or certain alternative assets could hold steady or even rise, cushioning the overall impact.



Sample Diversified Asset Allocation Model

Here's an example of a balanced portfolio designed to reduce volatility while maintaining growth potential:

Asset Class	Allocation %
U.S. & International Stocks	50%
Bonds (Investment Grade, Treasuries)	25%
Private Debt	10%
Private Equity	10%
Cryptocurrencies	5%

EXPLANATION:

- **U.S. & International Stocks (50%):** Provide growth potential but come with higher volatility.
- **Bonds (25%):** Offer stability and income, often moving inversely to stocks during market downturns.
- **Private Debt (10%):** Includes income-generating loans not tied to public markets, offering lower volatility and predictable cash flows.
- **Private Equity (10%):** Investments in private companies, which may have lower short-term volatility as valuations are based on long-term fundamentals.
- **Cryptocurrencies (5%):** High-volatility assets that can provide uncorrelated sources of return when allocated in small percentages.

This allocation provides exposure to high-growth equities, stabilizing bonds, and a mix of alternatives that can cushion volatility and enhance long-term returns.

This diversified mix aims to balance growth and risk, helping to reduce overall portfolio volatility.

It's not just about how much you make—it's about how much you keep



The Long-Term Advantage

Why does this matter?

Because volatility erodes returns over time. A portfolio that avoids steep losses doesn't just feel more comfortable—it can compound more effectively over the long term.

Moreover, reducing volatility helps investors stay invested during turbulent times, avoiding the costly mistake of selling low and missing the recovery.



Building a Resilient Portfolio

The key to successful diversification isn't simply owning a little of everything—it's about carefully selecting an asset mix that aligns with your goals, risk tolerance, and time horizon.

- For younger investors with a long runway, a higher allocation to equities may be appropriate.

- For those approaching retirement, increasing exposure to bonds and alternatives—like private debt, private equity, and select cryptocurrencies—can help preserve capital while still providing growth potential.

Remember, diversification won't eliminate risk entirely—nor should it. But it can reduce the magnitude of volatility, providing a smoother journey and maximizing the potential for long-term wealth accumulation.

TAKE ACTION TODAY



In my practice, I always stress to clients: It's not just about how much you make—it's about how much you keep. A well-diversified portfolio is one of the most powerful tools we have to help investors keep more of their gains and stay the course through market cycles.

If you haven't reviewed your portfolio recently, now is the time. Are you properly diversified? Is your asset mix designed to weather volatility and capture long-term growth?

Consult with your financial advisor or reach out to our team for a comprehensive review. Together, we can help ensure your portfolio is built for resilience and long-term success.

