OSC ONTARIO SECURITIES COMMISSION

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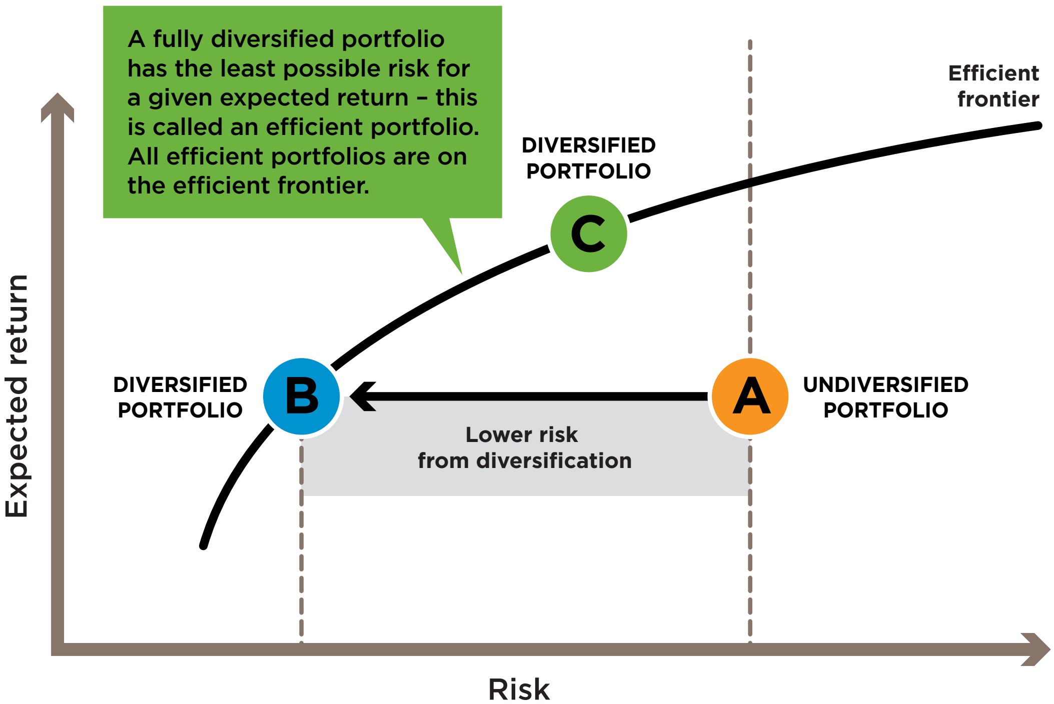
Risk and diversification

If you hold a portfolio with a variety of different investments, not all of the investments will perform the same way at the same time. Diversification lets you reduce the risk of your portfolio without sacrificing potential returns. As you diversify by adding more and different investments to a portfolio, you lower your potential risk of loss.

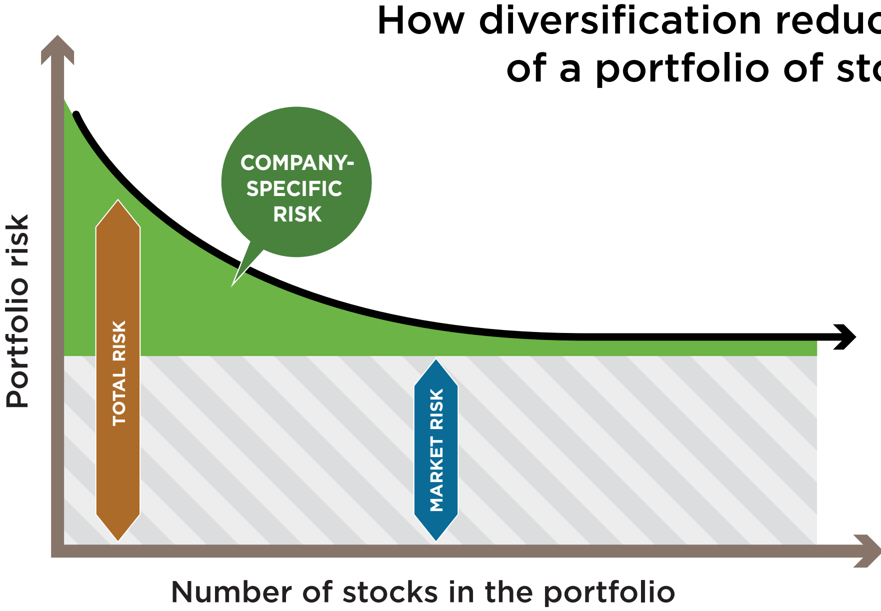


A **Undiversified portfolio:** Exposed to too much potential risk for too little possibility of reward

B **Fully diversified portfolio:** The least possible risk for the same expected returns as in Portfolio A

C **Fully diversified portfolio, greater expected return:** More risk

How diversification reduces the risk of a portfolio of stocks



You can't completely eliminate all investment risk from a portfolio. For example, after diversification of a portfolio of stocks, you're still left with overall market risk – the movement of the entire market that typically affects all individual stocks.