

Don't plant just one crop.

01 / DIVERSIFICATION

DRAFT FOR APPROVAL

THE EVERYDAY LESSON

Imagine planting a garden with only tomatoes. You can prepare the soil and water carefully, but a disease that affects tomatoes could still spoil your season. A mix of crops gives you more than one thing to depend on.

Investing follows the same principle. Spreading money across different investments can reduce dependence on any one company or sector. Diversification helps manage risk; it cannot prevent every loss.

ONE INVESTMENT FALLS 20%

How much does the whole portfolio lose?

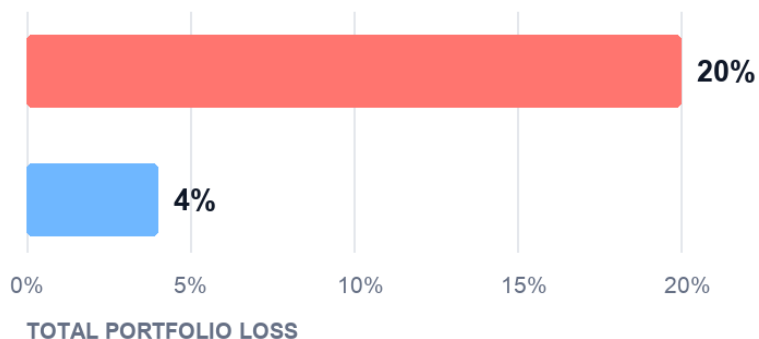
Hypothetical example: every other holding stays flat.

100% in that investment

Share of the total portfolio

20% in that investment

Share of the total portfolio



Portfolio impact = investment weight x investment return

ONE QUESTION TO KEEP

How much of my plan depends on one outcome?

UNDERSTAND THE EXAMPLE

Small enough to explain. Important enough to remember.

The chart on page 1 isolates one idea: the share of your portfolio in an investment changes how much that investment affects the whole.

THE MATH

$$100\% \times (-20\%) = -20\%$$

$$20\% \times (-20\%) + 80\% \times 0\% = -4\%$$

This is an invented, single-period example. It assumes one investment falls 20% while all other investments remain unchanged. It excludes fees and taxes. The 20% holding is an illustration, not a recommended allocation.

THE LIMIT

Many investments can fall together. Diversification does not guarantee a profit or prevent market losses. Owning several funds also does not ensure diversification if their holdings overlap.

READ FURTHER

[Investor.gov: Asset Allocation and Diversification](#)

[EverOwn Financial Strength Guide: Week 04, page 7](#)