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Is Diversification Dead?

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Is Diversification Dead?

Diversification (primarily based on asset correlation) is a key component of Modern Portfolio Theory (MPT). However, the recent financial crisis illustrated an increase in correlation across asset categories. Thus, many debate whether diversification still helps. Even with increasing correlations, diversification still provides benefit (possibly just not as much). However, the more relevant issue is that increasing correlation across the typical asset categories suggests that diversification is now more critical across "non-typical" categories -- such as commodities, hedge funds, and private equity funds. [See the article here, Journal of Financial Planning.](#)

Related Chapters: Chapter 11, Chapter 12