

Activity Sheet 1: How Diversified are these Portfolios

From the financial portfolios listed below which one is the most diversified?
Explain.

PORTFOLIO A		PORTFOLIO B		PORTFOLIO C	
Symbol/ Quantity	Industry	Symbol/ Quantity	Industry	Symbol/ Quantity	Industry
FISV 100	Business Software	JPM 200	Bank	SBUX 500	Specialty: eateries
TD 100	Bank	AAPL 150	Personal computer	TIF 200	Jewelry
ADES 100	Specialty Chemicals	INTC 200	Semi- conductor	BK 100	Banks
TRB 100	Publishing Newspaper	GOOG 100	Internet search service	GOOG 100	Internet search service
TW 100	Insurance	MSFT 300	Software	CSK 100	Paper products
ESRX 100	Health Services	SBUX 150	Specialty: eateries	NCC 100	Banks
RAIL 100	Railroad	DELL 300	Personal Computer	UNS 700	Electric: Utilities
		HD 250	Home Improvement	WMT 300	Discount: Variety

ANSWER KEY

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Explain

Answers may vary. The goal of the exercise is to encourage students to think more deeply about their responses. Generally speaking, Portfolio A is considered very diversified since it contains stocks from a variety of industries, including health services, Insurance, chemicals, and financial services. Portfolio B is not as diversified because it contains several technology related companies. Portfolio C is not as diversified because it contains several companies that sell or create personal luxury items or consumer goods.

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TW 100	Insurance	MSFT 300	Software	CSK 100	Paper products
ESRX 100	Health Services	SBUX 150	Specialty: eateries	NCC 100	Banks
RAIL 100	Railroad	DELL 300	Personal Computer	UNS 700	Electric: Utilities
		HD 250	Home Improvement	WMT 300	Discount: Variety



Now it's your turn. Select a portfolio listed above and, using the table below, diversify its holdings. You cannot diversify just by adding more companies to the portfolio. Assume all stocks in the portfolios are the same price. After you sell 700 shares of a holding, you can buy 300 shares of another company's stock and 400 of another. Explain all changes you make.

Answers may vary.

I would work on Portfolio B.

I would sell the 300 shares of Microsoft and buy 200 Shares of Newmont Mining, and 100 shares of New York State Gas & Electric.

I would then sell the 300 shares of Dell and buy 100 ESRX, a health services stock, and 200 shares of Toyota. These would give the portfolio some new types of stocks.