

Name \_\_\_\_\_

## Unlocking the Magic of Stock Portfolios: The Power of Diversification

### Open-Ended Response Answer Key

1. Investing in a portfolio consisting only of technology stocks can provide the potential for high returns if the technology sector is performing well. However, it comes with the risk of significant losses if the technology sector faces challenges. Diversification could improve this portfolio by including stocks from other sectors, reducing the impact of technology sector fluctuations.
2. During an economic downturn, a diversified portfolio can provide stability because it contains stocks from different industries. For example, if the manufacturing sector is struggling, healthcare and consumer goods sectors may perform better, helping to mitigate overall losses.
3. Balance in a diversified portfolio is crucial because overinvesting in a single sector or industry can expose the portfolio to concentrated risks. By avoiding overinvestment and maintaining a mix of stocks across various sectors, investors reduce the impact of poor performance in one area.
4. Maintaining a diverse portfolio in a changing market requires staying informed about industry and market trends, adjusting investments when necessary, and considering long-term investment strategies. Investors can adapt to economic shifts by reallocating their assets, seeking new opportunities, and managing risk proactively.

