Portfolio Strategy Word Search

Answer Key

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10 Terms & Definitions

ALLOCATION
The process of dividing a portfolio among different asset classes — stocks, bonds, cash — based on goals, time horizon, and risk tolerance. Asset allocation is the single most important portfolio decision, explaining over 90% of long-term return variation.

DIVERSIFY
To spread investments across multiple securities, sectors, and asset classes to reduce the impact of any single investment on the overall portfolio. Diversification eliminates company-specific risk without proportionally reducing expected returns.

REBALANCE
The process of realigning a portfolio back to its target asset allocation after market movements cause it to drift. Rebalancing involves selling assets that have grown above their target weight and buying those that have fallen below.

BENCHMARK
A standard index used to evaluate the performance of a portfolio or investment fund. The most common benchmark for US equity portfolios is the S&P; 500. Comparing returns to a relevant benchmark reveals whether a strategy is adding or destroying value.

CORRELATION
A statistical measure (from -1 to +1) of how two assets move in relation to each other. A correlation of +1 means they move in perfect lockstep; -1 means they move in opposite directions. Low-correlation assets provide the best diversification benefits.

VOLATILITY
A statistical measure of the degree of price fluctuation in an investment, usually expressed as annualized standard deviation. Higher volatility means wider price swings in both directions. Volatility is not the same as risk of permanent loss.

LIQUIDITY
The ease and speed with which an asset can be converted to cash at fair market value without significantly affecting its price. Highly liquid assets (large-cap stocks, Treasury bonds) can be sold instantly. Illiquid assets (real estate, private equity) may take weeks or months.

HORIZON
The length of time an investor expects to hold investments before needing the funds. Time horizon is a primary determinant of appropriate risk level. Longer horizons allow more risk-taking because there is more time to recover from downturns.

EXPOSURE
The degree to which a portfolio is affected by a particular asset, sector, geographic region, or risk factor. Managing exposure is fundamental to portfolio construction — too much exposure to any single factor creates concentration risk.

DRAWDOWN
The peak-to-trough decline in portfolio value during a specific period, expressed as a percentage. Maximum drawdown measures the largest historical decline. Drawdown tolerance — how much loss you can psychologically withstand — is a key input in portfolio design.