

An Alternative to Insurance: Portfolio Management

- Diversification of ownership

From Crump 1874 book p. 94

There is an old saying that it is unadvisable to have all your **eggs in one basket**, a saw that is constantly quoted among both *bonâ fide* investors, as well as among speculators. A broker is not desirous

**ALL THE
EGGS IN ONE
BASKET.**

that his clients who speculate should be interested very largely in one stock. He prefers to have the liability spread over the market, for obvious reasons. If a client fancies a particular stock, or has good reasons for believing it is about to improve, and he goes to his broker with a view to increase his stake, he will not receive the same encouragement as if he selected something else. The influence thus brought to bear arises from selfish motives, and proves again that the client should keep his own counsel. If he have no decided views himself, it is certain he had better do nothing, for speculation thus entered upon is doubly and childishly haphazard.

The more organized methods of speculation which prevail in these times, cause the public to be mulcted of their money in a much more wholesale manner than was the case formerly. They are now

**TRAPS FOR
THE PUBLIC.**

driven like sheep, or rather enticed into a pen,

A Later Insight

- If people are all like me, all calculating with the same data, all wanting to hold portfolios on the frontier, then then they all want to hold the same portfolio (and cash)
- So **THAT HAS TO BE THE MARKET PORTFOLIO**

Portfolio Diversification

- All that should matter to an investor is the performance of the entire portfolio
- Mean and variance of portfolio matter
- Law of large numbers means that spreading over many independent assets reduces risk, has no effect on expected return