

INVESTOR BEHAVIOR · PORTFOLIO CONSTRUCTION STUDY

Are Retail Investors Truly Diversified?

A proprietary study of 1,500 retail investors comparing how diversification awareness translates into actual portfolio construction — and where the gap is widest.

41%HOLD >50%
IN A SINGLE ASSET**18%**INVEST ACROSS
5+ ASSET CLASSES**38%**"DIVERSIFIED" YET
HIGHLY CONCENTRATED

Table of Contents

| | | |
|----|-----------------------------------|----|
| 01 | Executive Findings | 3 |
| 02 | Introduction & Research Questions | 3 |
| 03 | Glossary | 4 |
| 04 | Institutional Validation | 4 |
| 05 | Theoretical Framework | 5 |
| 06 | Methodology & Research Team | 6 |
| 07 | Survey Results | 7 |
| 08 | Practical Implications | 10 |
| 09 | Conclusion | 11 |
| 10 | Data Sources & References | 11 |

01 Executive Findings

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TU proprietary research suggests retail investors widely recognize the importance of diversification, yet many remain heavily concentrated in a small number of assets. The findings indicate a significant gap between institutional diversification recommendations and actual investor behavior.

✓ **Portfolio concentration remains widespread.** 41% of retail investors allocate more than half of their portfolio to a single investment, while only 14% keep their largest position below 20%.

✓ **Most investors are diversified across too few asset classes.** 56% of respondents hold exposure to only one or two asset classes, while just 18% invest across five or more.

✓ **Investment experience improves diversification.** Only **11%** of investors with less than two years of experience hold 5+ asset classes, versus **32%** among those with 5+ years.

✓ **Portfolio concentration is usually intentional.** **44%** cite strong conviction in a specific asset as the main reason, while **29%** do so expecting higher returns.

✓ **A significant perception gap exists.** Although **71%** of investors consider themselves diversified, **38%** of those respondents still allocate more than half of their portfolio to a single investment.

✓ **Diversification awareness does not always translate into behavior.** Despite diversification being one of the most widely recognized investing principles, concentrated portfolios remain the dominant structure among retail investors.

Risk warning: Investing involves risk of loss. This research is informational only and is not investment advice.

02 Introduction & Research Questions

TU

Diversification is one of the most widely accepted principles in investing. Financial institutions, academic researchers and wealth management firms consistently argue that spreading investments across multiple assets can reduce portfolio volatility and improve long-term risk-adjusted returns.

Yet the rise of thematic investing, social media influence, AI-driven stock recommendations and the popularity of concentrated bets on cryptocurrencies and technology stocks raise an important question: **are retail investors actually diversified?** While diversification is frequently discussed in financial education, real-world investor behavior often appears to tell a different story. Many investors continue to build portfolios around a small number of favorite stocks, sectors or cryptocurrencies.

The study focuses on five key questions

- How concentrated are retail investor portfolios?
- How diversified are investors across different asset classes?
- How does diversification vary with investment experience?
- Why do investors choose to concentrate capital in a small number of assets?
- Do investors accurately assess their own level of diversification?

Diversification

Spreading investment capital across multiple assets, sectors or geographies to reduce portfolio-specific risk.

Portfolio concentration

The degree to which a portfolio's value is dependent on a small number of positions; high concentration increases idiosyncratic risk.

Asset class

A grouping of investments with similar characteristics — e.g. stocks, bonds, commodities, cryptocurrencies, cash equivalents.

Modern Portfolio Theory (MPT)

Framework introduced by Harry Markowitz showing that combining assets with different correlations can improve risk-adjusted returns.

Idiosyncratic risk

Risk specific to an individual asset, separable from market-wide risk and largely reducible through diversification.

Illusion of diversification

The mistaken belief that holding many positions equals diversification, when those positions share underlying risk factors.

CAWI

Computer-Assisted Web Interviewing — an online survey methodology for standardized data collection.

04 Institutional Validation

Diversification remains one of the most extensively researched concepts in modern portfolio theory.

Vanguard research highlights that effective investing starts with a well-structured asset allocation strategy and broad diversification. Diversified portfolios can help investors manage risk more effectively, improve resilience during market downturns and support long-term financial goals without relying on a small number of individual investments.

BlackRock research highlights diversification as a critical tool for navigating evolving market conditions. According to the firm's 2025 Investment Directions outlook, investors are increasingly seeking broader sources of return and risk diversification as traditional asset relationships become less predictable.

The **CFA Institute** describes diversification as one of the key benefits of a portfolio approach to investing. Portfolios can help reduce risk without necessarily compromising returns, while asset allocation, portfolio construction, monitoring and rebalancing form core steps of the portfolio management process.

OECD research suggests that financial knowledge does not always translate into effective financial behavior. OECD/INFE studies show that many individuals demonstrate awareness of key financial concepts, yet often struggle to apply them consistently when making investment decisions — a gap particularly visible during periods of market uncertainty and strong investment narratives.

Key institutional takeaways

| | | |
|-----------------------------------------------------------------------------------|----------------------------------------------------------------------------|-----------------------------------------------------------|
| <p>MPT</p> <p>diversification reduces risk without sacrificing returns</p> | <p>2025</p> <p>BlackRock: broader diversification more critical</p> | <p>Gap</p> <p>awareness ≠ behavior (OECD/INFE)</p> |
|-----------------------------------------------------------------------------------|----------------------------------------------------------------------------|-----------------------------------------------------------|

Investors looking to diversify their portfolios across different asset classes can follow analytical insights from TU experts on Telegram: **Anton Kharitonov** (Forex market analysis and trading ideas) and **Viktoras Karapetjanc** (technical analysis and macro trading insights).

05 Theoretical Framework



From a theoretical perspective, diversification aims to reduce portfolio-specific risk by spreading investments across assets that do not move perfectly together. Modern Portfolio Theory (MPT), introduced by Harry Markowitz, argues that investors can improve risk-adjusted returns by combining assets with different correlations.

Diversification can occur across several dimensions: asset classes (stocks, bonds, commodities, crypto, cash), geographic regions, economic sectors, company sizes and investment styles.

| CONCENTRATED PORTFOLIO ADVANTAGES | CONCENTRATED PORTFOLIO VULNERABILITIES |
|------------------------------------------|--------------------------------------------------|
| Stronger exposure to winning investments | Larger drawdowns during market stress |
| Simpler portfolio management | Higher volatility and unpredictability |
| Greater ability to outperform benchmarks | Increased emotional pressure during volatility |
| Less rebalancing overhead | Heavy dependence on individual asset performance |

Behavioral finance research further suggests that investors frequently confuse familiarity with diversification. Holding multiple technology stocks, for example, may create an illusion of diversification while still exposing the portfolio to the same underlying risks. This creates an important contradiction: although most investors understand diversification conceptually, many continue to concentrate capital in a small number of preferred assets.

06 Methodology & Research Team

TU

To evaluate how retail investors actually diversify their portfolios, TU conducted a proprietary quantitative study focused on portfolio construction, asset allocation, risk perception and behavioral influences. Unlike many institutional studies focused on theoretical portfolio optimization, this research examined real-world investor behavior.

| | |
|-------------------------------------------------------------|------------------------------|
| 1,500 RETAIL INVESTORS | 18–65 AGE RANGE |
| 5 regions N. AMERICA · EUROPE · ASIA · LATAM · EM | 95% CONFIDENCE |
| ±2.5% SAMPLING DEVIATION | CAWI SURVEY METHOD |

Eligibility: respondents with active investments during the previous 24 months.

Research team

Anastasiia Chabaniuk · Author
Research design and interpretation

Chinmay Soni · Fact-checker
Data validation & statistical verification

Dan Blystone · Editor-in-Chief
Editorial & methodological supervision

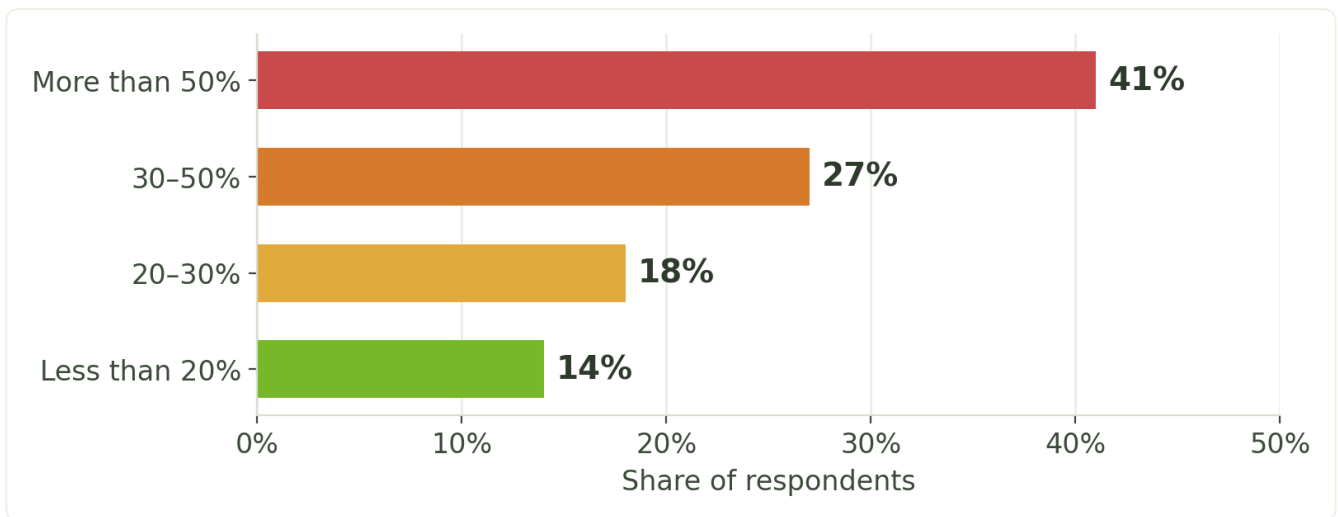
A. Mastykin · **O. Tkachenko** · TU Research
Data collection and analysis

07 Survey Results

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Portfolio concentration

Respondents were asked what percentage of their portfolio is allocated to their single largest investment.



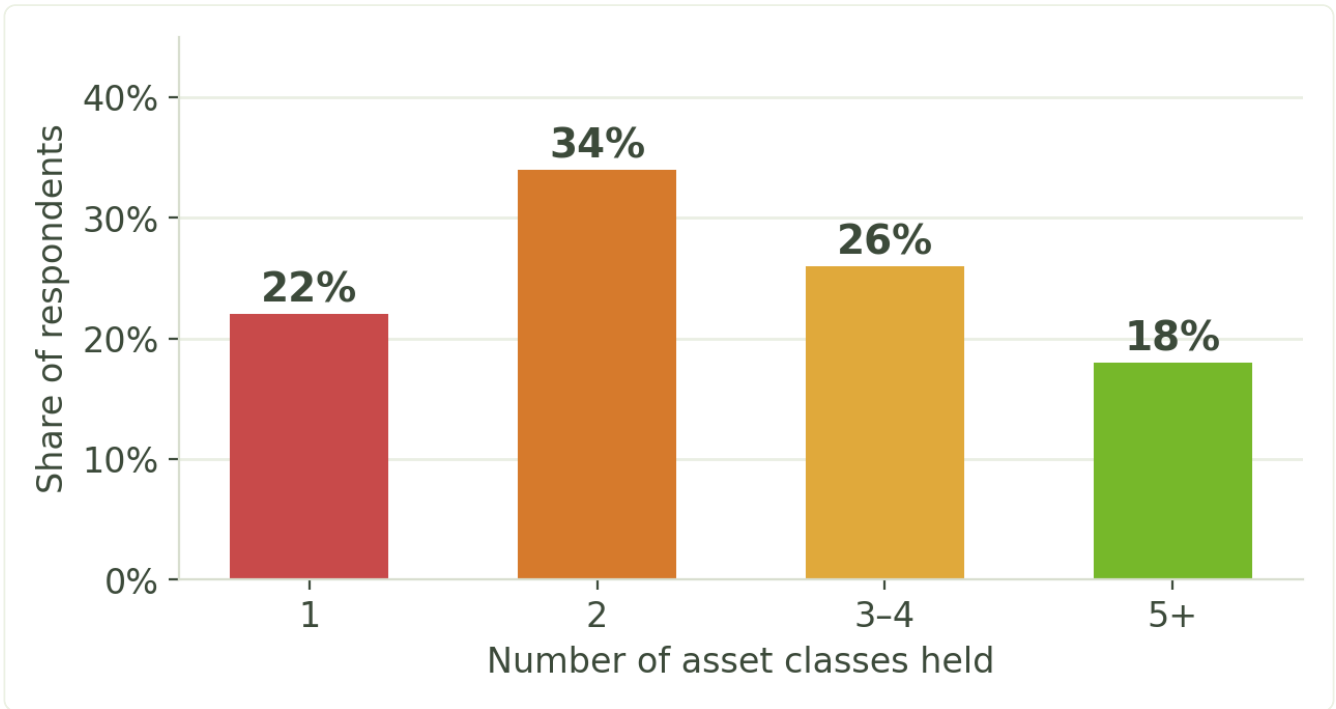
| LARGEST POSITION SHARE | SHARE OF RESPONDENTS |
|------------------------|----------------------|
| More than 50% | 41% |
| 30-50% | 27% |
| 20-30% | 18% |
| Less than 20% | 14% |

INSIGHT

Nearly half of investors maintain highly concentrated portfolios — a structurally fragile position regardless of which specific asset is held.

Number of asset classes owned

To assess the breadth of diversification, respondents were asked how many distinct asset classes they hold.



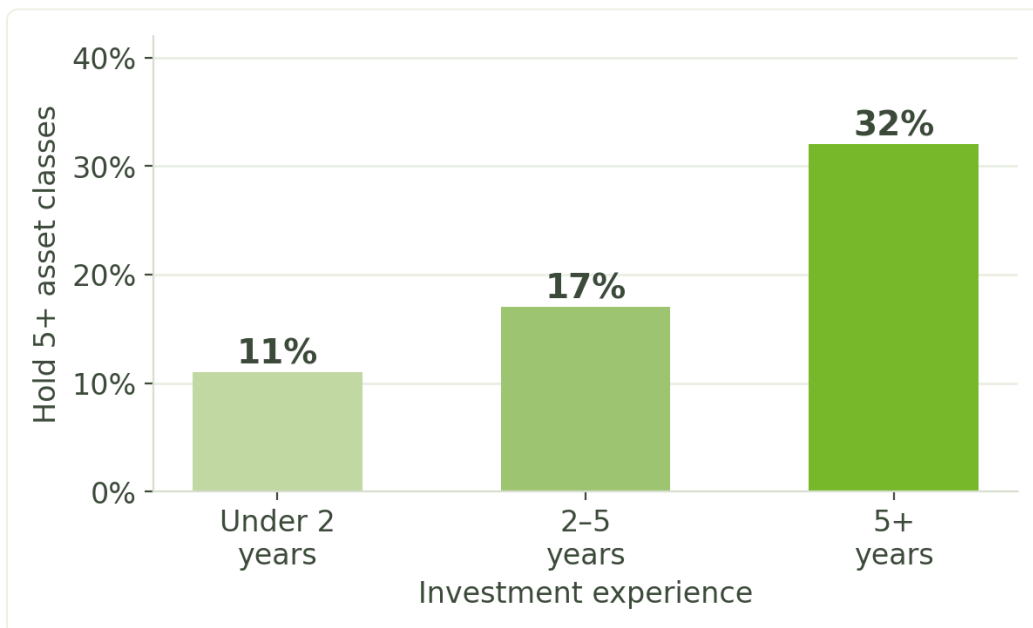
Asset class diversification

INSIGHT

Most investors hold exposure to only one or two asset classes (56% combined). Only 18% invest across five or more, despite institutional research consistently linking broader diversification with better long-term outcomes.

Diversification by experience

The study identified clear differences in diversification behavior across experience levels.



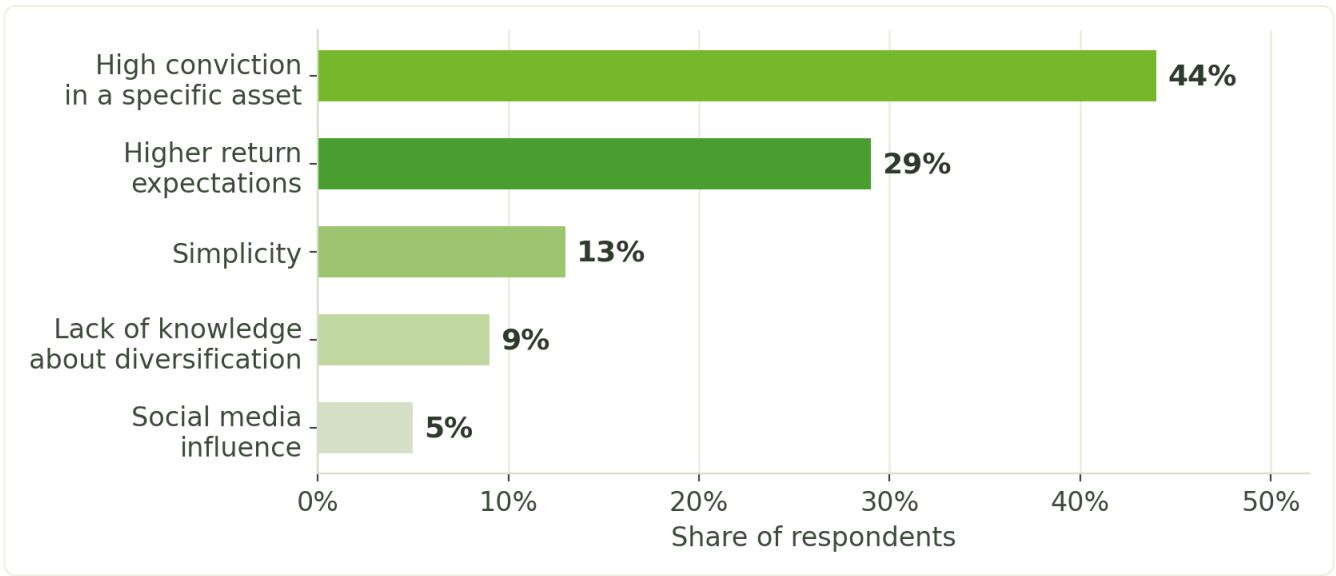
Share of investors holding 5+ asset classes, by experience

INSIGHT

Diversification increases substantially with experience — from 11% among beginners to 32% among 5+ year investors. Practical exposure to multiple market cycles appears to be a stronger driver of diversification than financial education alone.

Why investors concentrate portfolios

Respondents identified their primary reason for concentrating capital in a small number of assets.



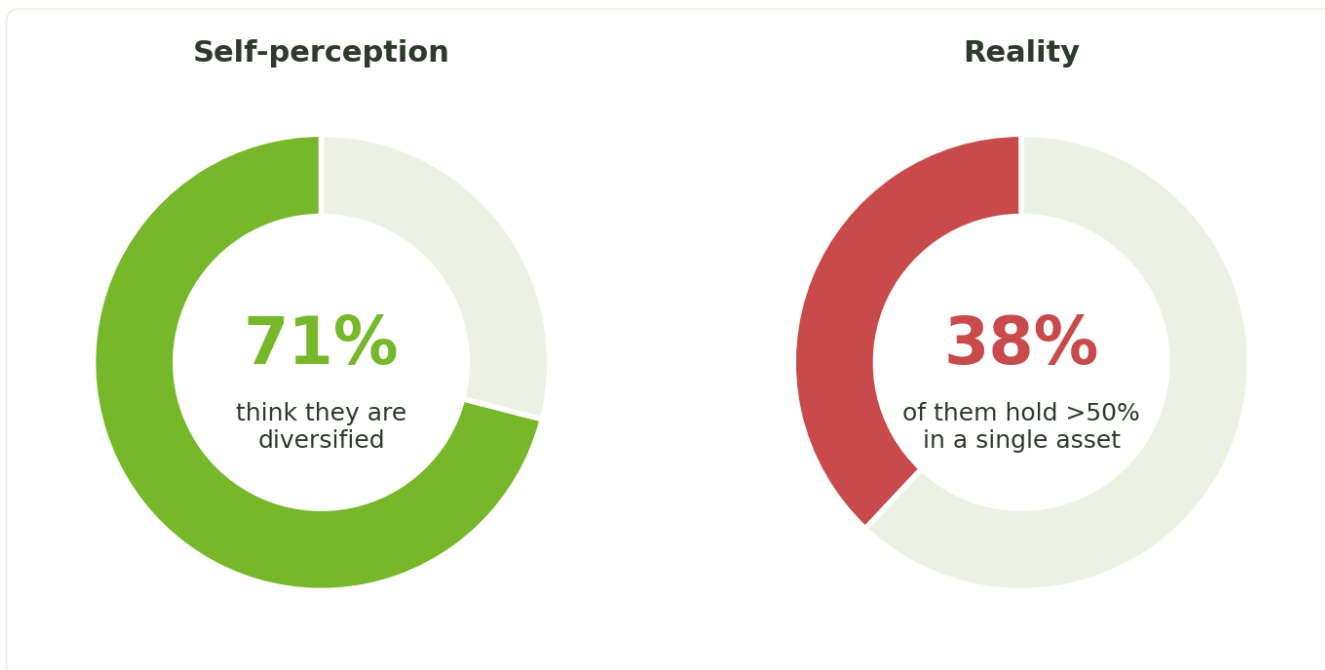
Main reason for portfolio concentration

INSIGHT

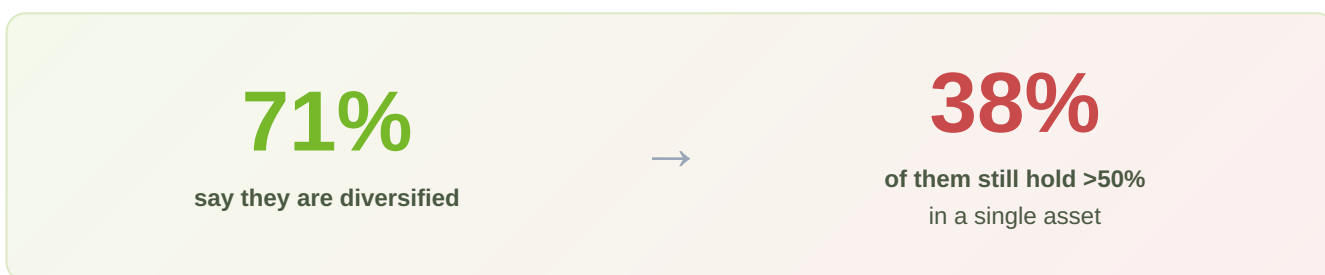
Concentration is usually intentional rather than accidental — 73% combined cite conviction or return expectations. Lack of knowledge (9%) and social media (5%) are surprisingly minor drivers, suggesting investors choose concentration consciously.

Self-perceived diversification

Respondents were asked whether they consider themselves diversified investors, allowing direct comparison between perception and portfolio structure.



Self-perception versus reality — the diversification gap



INSIGHT

Many investors overestimate their actual diversification level. The gap between perception and reality is the most consistent behavioral finding in this study — and the one most directly addressable through portfolio review rather than additional education.

08 Practical Implications

TU

The research suggests diversification remains one of the largest gaps between financial theory and investor behavior. Closing it does not require advanced knowledge — it requires structured review of actual portfolio composition.

- **Diversification awareness does not guarantee implementation.** Beliefs about diversification rarely match actual allocation patterns; verify rather than assume.
- **Concentrated portfolios remain common**, especially among crypto investors and thematic strategies.
- **Experience appears to improve diversification** — exposure to multiple market cycles is a stronger driver than financial theory alone.

- **ETF adoption is strongly associated with broader diversification** through embedded multi-asset exposure.
- **Social media narratives can increase portfolio concentration** by amplifying single-asset stories.
- **Risk management should focus on portfolio-level exposure** rather than individual positions.
- **Diversification should be evaluated across asset classes, sectors and geographies** — not only by number of positions.
- **Long-term investing outcomes** often depend more on risk management than asset selection.

As retail investing continues to evolve through digital platforms, AI-powered recommendations and social investing communities, portfolio concentration may remain a growing challenge despite increasing awareness of diversification principles.

09 Conclusion

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The research confirms that diversification is one of the most widely recognized investing principles — and one of the most inconsistently applied. Across every dimension measured (largest-position size, number of asset classes, experience effect, self-perception), retail investors consistently structure their portfolios more narrowly than they believe they do. Awareness is high, behavior lags significantly, and the gap is widest among less experienced investors.

The practical implication is direct: closing the diversification gap does not require new theory — it requires honest measurement of existing portfolios. Reviewing largest-position size, counting genuine asset-class exposure (not just position count), and treating familiarity-based holdings as concentration rather than diversification together address each weakness identified in the data. In a market increasingly dominated by thematic narratives, structured portfolio review remains the most underused tool available to retail investors.

10 Data Sources & References

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