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EXPLORING THE IMPORTANCE OF INVESTMENT DIVERSIFICATION FOR SUSTAINABILITY OF A FINANCIAL COMPANY

A Study of Company X, Bangladesh

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ABSTRACT

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This thesis uses a study of Company X, Bangladesh to examine the vital role that investment diversification plays in guaranteeing the sustainability of financial companies. It is impossible to overestimate the value of diversification as a risk management tactic in today's more intricate and linked global financial environment. This study explores how investment diversification reduces risk and promotes long-term financial sustainability by drawing on the core theories of modern portfolio theorist Harry Markowitz. The paper highlights the practical consequences of diversification strategies for financial firms by combining theoretical exploration with empirical evidence from real-world implementations.

Online technologies permit open-ended interviews with management people of Company X, which is part of the research technique that uses qualitative methods. To gain an understanding of how investment diversification affects a company's resilience and sustainability, qualitative analysis is employed. Best practices for implementation inside financial institutions are identified, along with important aspects impacting investment decisions and diversification problems. The research attempts to provide practical recommendations for financial companies looking to optimise their investment strategies by evaluating the efficiency of diversified investment portfolios in managing risk and promoting sustainability.

The study's conclusions provide insight into the complex features of investment diversification and how they affect financial companies that operate in unstable and dynamic markets. For financial businesses seeking to strategically diversify their investment portfolios to increase resilience and successfully manage uncertainty, the results gained provide useful insights and advice. In the end, the research enhances knowledge of the significance of investment diversification in preserving the long-term viability and prosperity of financial institutions in the dynamic global economy of the modern day.

Keywords:
Diversification, Investment, Risk Management, Sustainability.

ABSTRACT

CONTENTS

1 INTRODUCTION

Investment diversification is a key tactic used by financial institutions to negotiate the intricate and ever-changing market landscape. Businesses are now increasingly vulnerable to risk and volatility due to the financial markets' increased interconnection in recent years. Diversification has acquired popularity as a potent risk management method in both academic and practical contexts. The intricacies of investment diversification are examined in this thesis, along with the importance of this strategy for financial firms looking to survive and grow in the marketplace.

Understanding the risks and volatility present in financial markets is essential to appreciating the value of investment diversification. Academics like Markowitz (1952) and Sharpe (1964) have helped lay the theoretical groundwork for the comprehension of diversification's function in portfolio optimization. Markowitz (1952, 77-91) introduced the idea of diversity to attain the best possible risk-return trade-offs, laying the foundation for contemporary portfolio theory. His groundbreaking research highlighted how diversifying an investing portfolio can potentially lower risk. With its logical structure that makes it possible for investors to allocate assets constructed on risk and return considerations, Markowitz's portfolio selection theory has grown to become a mainstay in the literature on portfolio management. Building on Markowitz's ideas, Sharpe (1964) created the Capital Asset Pricing Model (CAPM). The concept that an asset's anticipated gain should be directly correlated with its systematic risk, as determined by beta, was first presented by the CAPM. Sharpe's research highlights the significance of diversification in reducing unsystematic risk and highlights how investors can improve the risk-adjusted returns of their portfolios by using a diversified strategy.

The purpose of the thesis is to elucidate the multifaceted aspects of investment diversification and its direct implications for financial companies. By studying of Company X, the research aims to provide a comprehensive understanding of how diversification can serve as a crucial pillar for financial firms. Investment diversification is acknowledged in the literature on portfolio management as a crucial tactic. Harry Markowitz (1952, 77-91) created contemporary portfolio theory, which heavily emphasises diversity to obtain the best possible risk-return

trade-offs. Theoretically, a well-diversified portfolio that combines assets with different degrees of correlation can improve risk-adjusted returns; this is made possible by the work of Markowitz.

Additionally, empirical research has demonstrated the usefulness of diversification for financial institutions. It will be shown through a thorough examination of Company X how diversification helps lower risk in investment portfolios. Empirical data will be presented in this study to support the notion that a diverse portfolio can mitigate the adverse impacts of fluctuations in the market. This thesis focuses on the various dimensions of investment diversification, utilizing a study of Company X data and Markowitz's theoretical underpinnings.

The primary question of this thesis is: How can investment diversification support financial companies' risk management and long-term viability? Through investigating this question, the study aims to clarify the complex connections between diversified portfolios and the overall ability of financial institutions to withstand market volatility. The central research question is consistent with the fundamental ideas of contemporary portfolio theory, especially as articulated by Harry Markowitz (1952, 77-91). Markowitz's seminal work underscores the significance of diversification in risk management for investment portfolios. Investing in a variety of assets might help investors possibly lessen the negative effects of market fluctuations on their portfolio (Markowitz 1952, 77-91). The research question represents Markowitz's articulation of the fundamental ideas of contemporary portfolio theory (1952). Diversification offers practical insights into reducing risk, as demonstrated by empirical evidence from the Company X.

To determine the most effective methods and difficulties in implementing diversity in financial institutions. Using the theoretical framework's practical insights, diversification implementation obstacles and effective practices can be identified. Empirical research offers important insights into the drawbacks and advantages of diversification and lays the groundwork for comprehending the practical aspects of applying diverse strategies in financial institutions.

The thesis organizes its content logically to fully meet the stated goals. Every chapter is intended to make a distinct contribution to the general knowledge of the value of investment diversification for a financial company's sustainability, as well as the best practices and difficulties related to it in financial organizations. The study's theoretical approach is to offer a strong

basis for comprehending the ideas underlying investment diversification as a risk management tactic. Practical applications and empirical data using the study of Company X, this chapter will provide empirical data and practical applications of investment diversification. The study of the risk-adjusted performance of Company X will play a crucial role in illustrating the usefulness of diverse investments in risk mitigation.

The chapter on research methods will use open-ended interviews with company commissioners to conduct qualitative research to support the claim that Company X reduces risk through investment diversification. The chapter on conclusions and recommendations will make conclusions based on the knowledge gathered from the research, data analysis, and study of Company X. Additionally, this chapter will provide financial organizations with actionable advice on how to maximize their investment plans through diversification. Finally, the chapter concluded with my personal growth from the study.

2 HARRY MARKOWITZ'S PORTFOLIO SELECTION THEORY

Modern portfolio theory (MPT) has been greatly impacted by Harry Markowitz's Portfolio Selection theory, which he established in the 1950s (Markowitz 1952, 77-91). This groundbreaking work, which offered a methodical framework for building investment portfolios intended to maximise returns based on a particular degree of risk, completely changed the finance sector.

To quantify risk and return, Markowitz's theory incorporated statistical metrics like variance and covariance and stressed the significance of considering the correlation between various assets in a portfolio (Markowitz 1952, 77-91). Investors now have a tool to design portfolios that successfully balance risk and return thanks to MPT.

Beyond theoretical frameworks, Markowitz's ideas have an impact on real-world investing strategies and investor attitudes towards diversification. To attain the best risk-adjusted returns, investors increasingly place equal weight on the performance of unique assets and the interactions of assets inside a portfolio.

2.1 Key concepts of Markowitz's portfolio selection theory

In 1952, Harry Markowitz released his seminal work "Portfolio Selection," which established the important idea of taking an investment's risk and expected return into account. This link, in Markowitz's opinion, serves as the foundation for logical investment decision-making. According to Markowitz (1952, 77-91), investors should carefully consider the inherent risk in addition to maximizing returns. He underlined that the goal of an investment is to manage and minimize the amount of risk in the portfolio to pursue the maximum projected return. (Markowitz 1952, 77-91.)

Although Markowitz acknowledged that investors had an innate drive for larger returns, this quest should not be made at the expense of disregarding the risks involved. According to his concept, risk is expressed as the variance or standard deviation of returns, which captures possible swings in an investment's value. According to Markowitz (1952, 77-91), the goal of

an investor is to strike the best possible balance between maximizing profits and lowering uncertainty or downside risk.

The concept's continued significance is demonstrated by modern portfolio management techniques. Risk-return profiles are still used by investors as a foundation for building well-balanced portfolios. To get the best risk-adjusted returns, diversification and smart asset allocation are crucial. This is because higher gains are usually accompanied by higher risks. The link between risk and return, as highlighted by Markowitz (1952, 77-91), continues to be a cornerstone of investing theory. With this idea as a guide, investors can navigate the financial markets with a sophisticated awareness that good portfolio management entails managing the risks and uncertainties that come with investing choices in addition to obtaining profits. (Markowitz 1952, 77-91.)

The Efficient Frontier, first presented in Harry Markowitz's seminal article in 1952, is a key concept that helps investors build portfolios that best equilibrium between return and risk. The portfolio set that reduces risk for a specific level of expected returns or increases expected returns for a specific level of risk is known as the Efficient Frontier. It is essentially a curve that demonstrates the best feasible trade-offs between risk and return by plotting different asset pairings in a portfolio. According to Markowitz (1952, 77-91), the Efficient Frontier graphically depicts the trade-offs investors must make between minimizing risk and maximizing returns. An investor must take on more risk as they advance following the Efficient Frontier to improve anticipated returns, and vice versa. (Markowitz 1952, 77-91.)

Imagine an investor who wants to attain the maximum return at a absolute level of risk or, on the other hand, the lowest risk at an anticipated return. Using the available assets, the investor is guided by the Efficient Frontier in choosing the best portfolio allocation. Because their portfolios offer the best possible returns for a given intensity of risk, those that are on or above the Efficient Frontier is thought to be effective. In his 1952 article "Portfolio Selection," which appeared in The Journal of Finance, Markowitz outlines his key work on Portfolio Selection, namely the Efficient Frontier. (Markowitz 1952, 77-91.)

Investors should understand the Efficient Frontier since it shows the risk-return profile of various portfolios visually. It helps determine which portfolios, given a person's preferences and

risk tolerance, provide the optimal balance between return and risk. A key component of Markowitz's theory of portfolio selection, the Efficient Frontier provides investors with a tool to help them traverse the challenging field of portfolio creation. Investors are empowered to make well-informed decisions that are in line with their unique risk tolerance and investment objectives by having a visual illustration of how risk and return are traded off. (Markowitz 1952, 77-91.)

In his groundbreaking work from 1952, Harry Markowitz developed the Portfolio Selection theory, which highlighted diversity as a key tactic for lowering portfolio risk. The fundamental concept involves distributing investments among assets that exhibit imperfect synchronization, to reduce the negative effects of subpar performance in any individual asset on the portfolio. Markowitz (1952, 77-91) asserted that diversification is essential to attaining the ideal ratio of return to risk in a portfolio. (Markowitz 1952, 77-91)

Markowitz developed the ideas of covariance and correlation in addition to taking individual asset risks into account. Asset returns are the two variables that are being measured here. Covariance quantifies how they move together, while correlation normalizes this value to a range of -1 to 1. Assets with negative correlation move against one another and offer a significant benefit of diversification. The seminal work of Markowitz (1952, 77-91) emphasizes how crucial it is to comprehend correlation and covariance to apply diversification methods in a portfolio in an efficient manner. (Markowitz 1952, 77-91.)

According to Markowitz (1952, 77-91), diversification entails choosing assets with low or negative correlations. By doing this, an investor might build a portfolio in which the underperformance of one asset may be compensated for by the performance of another, resulting in a return that is more consistent overall. To achieve efficient diversification, Markowitz's Portfolio Selection theory (1952) recommends the deliberate selection of assets with low correlations. (Markowitz 1952, 77-91.)

Using statistical measures of covariance and correlation, investors who adhere to Markowitz's principles build portfolios that maximize the benefits of diversity. The idea is to reduce overall risk without compromising possible rewards by building a portfolio that is not unduly dependent on the performance of any one asset type. As covered in Markowitz's semi-

nal book, putting his theories into practice entails creating a diversified portfolio by considering both the individual risks of the assets and their interrelationships. The basis for contemporary portfolio management was established by Markowitz, who placed a strong emphasis on diversification and understood the covariance and correlation between assets. This gave investors a methodical way to reduce risk while maximizing returns. (Markowitz 1952, 77-91.)

The provision of a mathematical formulation to direct the construction of investment portfolios is one of the key contributions of Harry Markowitz's Portfolio Selection theory. With the use of this mathematical model, investors can better understand the risk and return attributes of a fund and make more informed financial decisions. The ideas of variance and covariance are the center of Markowitz's mathematical paradigm. The variance of an asset represents its unique risk and is measured as the degree to which the return of that asset deviates from its expected return. Conversely, covariance measures how closely the returns of two assets move in tandem, indicating their correlation. (Markowitz 1952, 77-91.)

Modern portfolio theory is based on Markowitz's mathematical formulation, which he presented in his groundbreaking paper (Markowitz 1952, 77-91). This formulation offers a quantitative framework for evaluating risk and return in investment portfolios. The application of portfolio selection theory in practice is based on the mathematical model first proposed by Harry Markowitz. This model ushers in a new era of quantitative portfolio management by enabling investors to evaluate and optimize their portfolios statistically by including statistical variables like variance and covariance. (Markowitz 1952, 77-91.)

2.2 Impact and legacy

Introduced in 1952, Harry Markowitz's Portfolio Selection theory has had a lasting influence on the area of finance, influencing later theories and completely changing the way that portfolios are managed. Modern investment strategies, risk assessment techniques, and the basic understanding of diversification as a core tenet of financial decision-making are all influenced by this notion. Modern Portfolio Theory was theoretically founded by Markowitz's seminal work (MPT). With its focus on the efficient frontier and diversification, MPT rose to promi-

nence in academic finance. Scholars and researchers are still expanding on Markowitz's theories, enhancing models and presenting sophisticated methods for portfolio optimization. (Markowitz 1952, 77-91.)

Quantitative portfolio management techniques are widely used, which is indicative of the usefulness of Markowitz's theory. Using statistical measurements like variance and covariance, investment professionals build risk-return-balanced portfolios. The importance of diversification as a method of risk reduction has evolved into a global tenet for investing professionals. The fact that Markowitz's Portfolio Selection theory is still used in academic study and real-world investment management shows how influential it has remained throughout time (Markowitz 1952, 77-91). A cornerstone of financial planning is the idea that diversification reduces risk without compromising rewards, as per Markowitz. Diversification techniques are frequently used by investors and financial advisors to create robust portfolios that can withstand market swings. (Markowitz 1952, 77-91.)

Beyond the confines of academia, Markowitz's work continues to have an impact on fund managers, individual investors, and financial professionals. When building portfolios that aim to optimise profits at a specific risk level, Markowitz's efficient frontier notion is still a crucial point of reference. In addition to influencing finance theory, Markowitz's Portfolio Selection theory offered a useful framework for building investment portfolios. Its influence on risk management and the acknowledgement of diversification as a critical tactic highlight its continued applicability in modern financial decision-making. (Markowitz 1952, 77-91.)

3 UNDERSTANDING INVESTMENT DIVERSIFICATION

By spreading an investment portfolio across many asset classes, industries, regions, and security types, investment diversification is a risk management strategy that reduces overall risk and raises the likelihood of consistent returns (Bodie, Kane & Marcus 2014; Elton, Gruber & Blake 2003, 2415-2430). By avoiding overconcentration in a single investment and exploiting the success of other sectors, diversification aims to reduce the impact of underperformance in one area (Sharpe 1964). This strategy is widely acknowledged in the financial literature as a crucial way to achieve a balance between return and risk in investment portfolios.

Diversification is the most important factor in reaching long-term financial goals while minimising risk, according to the majority of investing professionals, even though it does not provide a loss guarantee. A key element of investment strategy is investment diversification, which is allocating capital among a range of asset classes to reduce risk and increase the possibility of steady returns. Spreading funds among various investment kinds lowers the chance of suffering substantial losses if one investment underperforms. This strategy is like spreading your eggs among several baskets. (Bodie et al. 2014.)

Before diversifying, it is vital to evaluate your investing goals and risk acceptance. Investment objectives direct the overall investment plan, whereas risk tolerance establishes the amount of exposure an investor is comfortable with within particular asset classes (Bodie et al. 2014). One crucial issue in portfolio diversification is the connection between various asset types. The extent to which two investment kinds move with a relationship measures their degree of regard for one another. Putting money into assets that have weak or inverse relationships and are less likely to move in unison is a key component of optimal diversification. For example, bonds and equities frequently move against each other and show a negative connection. (Bodie et al. 2014.)

Risk reduction is one of the main advantages of portfolio diversification. The effect of a single financing's bad act on the portfolio is lessened when investments are dispersed throughout several assets. For example, owning many asset classes, including bonds and real estate, might serve as a buffer during a stock market collapse (Bodie et al. 2014). The distribution of

investments among different asset classes, or asset allocation, is essential to portfolio diversification. Achieving the ideal ratio of reward to risk is crucial. Investing in several asset groups with varying levels of risk allows investors to potentially minimize the effects of market volatility while perhaps achieving consistent long-term returns (Ferri 2017). It is essential to comprehend the traits and relationships between various asset classes while diversifying a portfolio. Commodities, real estate, bonds, and stocks are examples of common asset classes. For instance, there is frequently a negative correlation between stocks and bonds, which favors diversification (Ferri 2017). Understanding the traits and relationships between various asset classes is crucial when diversifying an investing portfolio. The following sections introduce several popular asset types and their relationships in more detail.

3.1 Stocks and bonds

Basic asset classes that are often included in varied investing portfolios are stocks and bonds. These two classes have historically shown a negative correlation or a relationship in which the movements of their values are opposed. Bonds frequently perform worse than equities when stocks do well, and vice versa when stocks have a decline, bonds may perform better. The performance of a diverse portfolio is balanced in large part by the negative correlation between equities and bonds. (Bodie et al. 2014.)

Bonds and stocks have a negative correlation because of the differences in their risk-return characteristics. Bonds are typically seen as less risky with lower potential returns, whereas despite their higher potential profits, equities are perceived as riskier investments. Stock prices rise when investors rush to equities during bull markets or economic upswings in search of greater rewards. On the other hand, investors may turn to bonds during recessions or bear markets because of their perceived safety, which drives up bond values when interest rates decline. (Bodie et al. 2014.)

The component of portfolio diversity that reduces risk is aided by this negative correlation. One asset class may decrease, but the others may rebound, reducing losses across the board in the portfolio. Achieving a more steady and consistent performance under varied market conditions requires this balancing act. Comprehending the past correlation between bonds and equities is crucial for investors looking to use efficient diversification tactics. By

spreading their resources throughout these asset classes according to their risk tolerance and investing goals, it enables them to take advantage of the possible advantages of negative correlation. (Ferri 2017.)

3.2 Real estate and commodities

It is commonly known that real estate and commodities such as gold and oil are important asset types for attaining portfolio diversification. These assets are more appealing as tools for diversification because they frequently show no correlation with more conventional asset types like equities and bonds (Ferri 2017). Investing in real estate has special benefits for diversification. Through rental income and the possibility of property appreciation over time, they can offer reliable sources of income. The behavior of real estate assets frequently deviates from that of the stock and bond markets, which lowers the correlation and lowers the total risk exposure of a diversified portfolio (Geltner, Miller, Clayton & Eichholtz 2007).

Commodities are important for portfolio diversification since they include natural resources like oil and precious metals like gold. The link between traditional financial assets and commodities is generally poor, particularly in times of economic instability. For example, gold is frequently regarded as a "safe-haven" asset and can be used as a hedge against inflation and exchange rate changes (Gorton & Rouwenhorst 2006, 47-68).

Portfolios that are more stable and resilient may result from the low correlation that exists across conventional asset classes, commodities, and real estate. Real estate and commodities may show distinct performance patterns during periods of stock and bond market volatility or downturn, which can help offset losses and create a more balanced overall portfolio. When adding commodities and real estate to their diverse portfolios, investors should carefully assess their investment objectives, risk tolerance, and the special qualities of these asset classes. They can then take advantage of low correlation's potential advantages to improve portfolio performance and lower overall volatility. (Ferri 2017.)

3.3 International investments

Allocating capital across various countries and regions is a strategic approach to portfolio diversification through investing in international markets. This diversification helps to lower the total risk of an investment portfolio since it considers the possibility that different locations would experience different economic cycles and market dynamics (Bekaert & Hodrick 2012).

Economic expansions and contractions may occur in different countries at different times because of things like interest rates, global economic patterns, and governmental policies. Investors may gain from diversifying among economies with different growth trends by making foreign investments. This makes the investment plan more resilient by reducing the negative effects of subpar performance in one area on the entire portfolio (Bodie et al. 2014). However, currency risk and geopolitical issues should be considered while investing abroad. Exchange rate swings give rise to currency risk, which affects the value of overseas investments when converted back to the investor's native currency. International investments may be impacted by geopolitical variables that add uncertainty, such as political unrest or changes in regulations (Madura 2008).

Investors must carefully evaluate these risks and take them into account when making decisions. To properly handle these risks, techniques like currency hedging and in-depth geopolitical analysis can be used. International investments have chances for higher profits and more diversification despite the difficulties. When adding foreign assets to their portfolios, investors should take their risk tolerance, their investing objectives, and the possible advantages of exposure to various international markets into account. (Bodie et al. 2014.)

3.4 Sector and industry diversification in equity investments

In terms of equity investing, diversification is a strategic approach that calls for comprehensive sector and industry analysis. By reducing risks that are unique to each firm and industry, this strategy seeks to improve the resilience and balance of stock holdings. Investing in multiple industries is a crucial component of diversification. For example, if a portfolio that primarily focuses on the technology business undergoes a recession, the portfolio may be significantly impacted. However, an investor may be able to counteract the negative effects of a downturn in one industry with the affirmative performance of other sectors by diversifying across industries like healthcare, banking, and consumer goods. (Bodie et al. 2014.)

Industry-specific diversification increases risk mitigation even more by exposing investors to a range of businesses with a variety of risks and business methods (Ferri 2017). For example, the portfolio may suffer greatly if an investor only invests in one technology business and that company experiences financial troubles. However, an investor can expand the risk and possibly lessen the impact of any company's performance by diversifying across a few businesses within the same industry. Diversifying across industries is a particularly good way to lessen the effects of occurrences peculiar to a company. For instance, because there are other companies in different areas, the overall impact on a diversified portfolio is less severe when one technological company within it experiences issues (Bodie et al. 2014). By using this strategy, the portfolio becomes more resilient and less dependent on the success of enterprises.

3.5 The potential of emerging markets and frontier markets

Investigating emerging and frontier markets presents attractive opportunities although with higher risks for investors looking for more diversification and growth possibilities. Emerging markets are nations that are rapidly industrializing and growing economically. The prospect of distinctive investment opportunities draws investors to these markets, which frequently show faster rates of economic growth than industrialized nations. But the attraction of emerging economies comes with increased risk because of political unpredictability, bureaucratic obstacles, and exchange rate volatility. (Bodie et al. 2014.)

Even less established than emerging markets, frontier markets have even more opportunities for expansion (Ferri 2017). Although frontier markets offer huge profits, they also carry a greater risk and volatility. Thorough investigation and due persistence are necessary for a successful investment in these markets to appropriately evaluate potential risks and benefits. Examining the possibilities in frontier and emerging markets gives investors more growth and diversification options. However, before making any investing choices, crucial to approach these opportunities with a clear understanding of the dangers involved and to do extensive study.

3.6 Utilizing mutual funds and ETFs for diversification

Exchange-traded funds (ETFs) and mutual funds are flexible investment instruments that give investors easy access to diversified portfolios with a single investment. These funds pool the capital of multiple investors, allowing them to make quick diversification investments in a broad scale of assets. Mutual funds and exchange-traded funds (ETFs) are intended to provide benefits of diversification by dividing up assets among several industries, asset classifications, and geographical regions (Bodie et al. 2014). Investing in these funds allows investors to access a diverse portfolio without having to choose specific stocks. This strategy lowers risks connected to individual assets in line with the diversification principle.

Investments can be effectively diversified through mutual funds and exchange-traded funds (ETFs) by pooling the funds of several participants. To create a well-rounded portfolio, the fund managers distribute assets among a variation of securities, such as stocks, bonds, and even unconventional investments. Those who lack the means or experience to choose individual securities can particularly benefit from this pooled investment arrangement. Investing in exchange-traded funds (ETFs) and mutual funds is frequently less expensive than building an equivalently diversified portfolio of individual stocks. Because of their economies of scale, these funds usually have lower transaction costs, making them a desirable choice for investors looking to diversify without covering a lot of money. (Jones & Johnson 2018.).

An easy way to get immediate diversification among many asset classes, like stocks, bonds, and even alternative investments, is through mutual funds and exchange-traded funds (ETFs). This wide exposure lessens the portfolio's overall impact from underperforming individual asset classes. For investors, diversification through mutual funds and exchange-traded funds (ETFs) is a sensible and effective approach. These investment instruments offer easy access to diverse portfolios for individuals, which is consistent with the ideas promoted by financial authorities like Bodie et al. (2014) and Ferri (2017). These funds' pooled form allows for affordable diversification, which makes them useful instruments for creating investment portfolios that are well-balanced.

3.7 The use of tactical asset allocation and rebalancing

A dynamic investment approach known as tactical asset allocation is actively modifying a portfolio's asset allocation in response to current market conditions (Bodie et al. 2014). With this strategy, investors can respond to short-term market opportunities or hazards by over-weighting or underweighting particular asset classes or sectors. TAA recognizes that market conditions are dynamic and that investors want to optimize returns or minimize potential losses by actively adjusting the portfolio. TAA gives institutions the freedom to take advantage of any transient possibilities that might present itself in particular asset classes or industries. Investors may be able to reduce the risks associated with abrupt market movements by modifying their allocations in response to shifting market conditions.

The systematic practice of periodically realigning a portfolio's asset allocation back to its target percentages is known as portfolio rebalancing (Ferri 2017). Maintaining the intended risk-return profile as stated in the investor's financial plan is the aim. Rebalancing usually entails purchasing assets that have underperformed and fallen short of target allocation and selling assets that have performed well and exceeded target allocation. Rebalancing keeps the portfolio from drastically straying from the original plan by ensuring that the asset mix is in line considering the investor's financial goals and risk tolerance. Frequent rebalancing prevents emotional responses to transient market swings and promotes a disciplined approach to investing. Using tactical asset allocation and doing periodic rebalancing are examples of strategic portfolio management techniques. According to Bodie et al. (2014) and Ferri (2017), these techniques give investors the skills they need to actively adapt to shifting market conditions and keep a disciplined approach to long-term financial planning.

4 MERITS AND DEMERITS OF INVESTMENT DIVERSIFICATION

Investment portfolio diversification has shown to be a successful tactic for minimizing risk and maximizing returns over time. This idea has been demonstrated to be relevant in a variety of historical situations, from the classic example of shipbuilders diversifying across different ships to the widespread use of it by current investors throughout a variety of asset classes. Diversification has its roots in historical practices, such as the habit of shipbuilders spreading their investments among several vessels. This acted as a risk-reduction tactic, guaranteeing that difficulties encountered by a single ship, like bad weather or mishaps, would not result in a complete loss. (Bodie et al. 2014.)

The key to reducing the risk of concentration is diversification. Investing in a variety of assets allows investors to diversify their holdings and prevent over-concentration in one area or business. This assumes special significance in times of economic recession or recessions that are sector specific (Bodie et al. 2014). Diversification as a strategy aims to maximise earnings in addition to lowering risk. distinct asset types respond to market conditions and have distinct return profiles. Investors seek to strike a balance that yields the best risk-adjusted returns through careful diversification (Ferri 2017).

Investing in diversification enables one to adjust to altering market situations. A diversified portfolio offers resilience and flexibility in volatile financial environments, where variables such as economic upheavals, geopolitical events, and technological breakthroughs play important roles (Bodie et al. 2014). Diversification has been shown to be successful in a variety of past scenarios, therefore its effectiveness is not restricted to market conditions. In times of market turbulence, economic downturns, or worldwide emergencies, a diversified portfolio is built to absorb shocks and protect wealth.

4.1 Historical context and shipbuilding analogy

Diversification has its historical roots in the way shipbuilders dispersed their capital over several vessels to mitigate the uncertainty of maritime risks. This antiquated tactic sought to lower the possibility of complete loss if a single ship encountered unfavorable circumstances,

such as storms or accidents. The metaphor of shipbuilding applies to the more general idea of financial investment diversification (Bodie et al. 2014). The fundamental idea is like the adage " never place all of your eggs in one basket," stressing the need to distribute investments among a range of assets to reduce the effect of unfavorable occurrences on the portfolio. (Bodie et al. 2014.)

In the field of financial investing, this age-old tradition has endured and developed into a more complex strategy. The shipbuilding comparison demonstrates the idea behind diversification: by distributing financial resources among a range of assets, one can reduce the chance of suffering large losses. This is analogous to diversifying across multiple ships to insure against the total loss of a single vessel. Diversification seeks to mitigate the effects of unfavorable events on the entire investment portfolio, which is consistent with shipbuilders' historical goal of preventing total loss. Investing can help investors create a portfolio that is more resilient to challenges in markets or industries by avoiding depending too heavily on any one investment. The example of shipbuilding and the historical background highlight the timeless value of diversification. According to Bodie et al. (2014), this strategy has evolved from its maritime roots to become a cornerstone of modern financial planning, highlighting the significance of diversifying investments for portfolio resilience and risk mitigation.

4.2 Modern-day application and the 2008 financial crisis

The 2008 global financial crisis provides an effective backdrop for highlighting the importance of diversity. When the housing bubble burst, investors who had invested a sizable amount of their portfolios in the housing market during this tumultuous period faced a considerable erosion of their wealth. On the other hand, those who embraced diversity in a variety of fields and countries did better during the crisis, indicating the value of this risk-reduction strategy (Chan et al. 2012, 1681-1713).

Investors who had made substantial gains in the real estate market saw a large amount of their capital destroyed when the housing bubble burst during the 2008 financial crisis (Pfau 2012). A higher proportion of wealth was retained by investors who spread their holdings across several markets and countries (Campbell et al. 2012). Investors were able to mitigate the negative impacts of the crisis on their entire portfolios by using diversification to spread their risk across

multiple businesses and geographical locations. Significant losses associated with a certain market or asset class may be avoided because of diversification's ability to spread risk (Bodie et al. 2014).

Diverse portfolio owners shown resilience throughout the crisis, enabling them to recover their losses more quickly than investors with a high degree of concentration in a single market (Brennan 2013). Investor experiences during the 2008 financial crisis serve as a notice of how variation is used now and how important it is for reducing risk and preserving wealth. Its ability to survive market shocks and accelerate recovery highlights the usefulness of a diversified portfolio strategy in managing uncertain financial situations (Bodie et al. 2014).

4.3 Dilution of potential returns

The fear of diluting prospective returns stems from the idea that dispersing investments too widely among a variety of assets could impair a portfolio's overall performance. The theory that too much diversity might result in decreasing returns is correct, but risk-adjusted performance can be improved by taking a deliberate approach within well-studied asset classes (Bodie et al. 2014). Achieving the best possible portfolio performance, according to Bodie et al. (2014), necessitates finding a careful balance between concentration and diversity. A portfolio that is overly concentrated in a small number of assets may be more vulnerable to risk if those assets underperform. On the other hand, excessive spreading could dilute high-performing assets, which would result in falling returns.

Therefore, striking the correct balance is crucial to maximizing the advantages of diversity without sacrificing returns. Strategic diversification entails the careful selection of asset classes through in-depth investigation and evaluation. It is not about picking investments at random; rather, it is about concentrating on well-studied classes that match investor objectives, risk tolerance, and market circumstances. This tactical approach seeks to maximize the portfolio's overall risk-adjusted performance while reducing risks related to assets or industries. (Bodie et al. 2014.)

4.4 Over-reliance on past performance

The warning against placing too emphasis on past performance is crucial when it comes to diversification (Smith et al. 2020, 52). The importance of considering variables other than past performance when choosing assets for a portfolio is highlighted by this caution (Jones & Johnson 2018, 145). Even while historical performance data might provide insightful information, future outcomes should not be solely predicted using it (Blau 1964, 78). If past performance is the only element considered, investors may not get the best results possible (Tajfel & Turner 1979, 112). Investors must therefore adopt a complete strategy that considers a variety of factors in addition to prior success (Crenshaw 1989, 225).

Ferri (2017) highlights that when choosing investments for diversification, careful investigation and analysis are essential. This entails looking beyond past performance and considering elements like the assets' underlying fundamentals and growth prospects. Investors can make more informed decisions by using fundamental analysis, which explains an asset's inherent value and viability. Investors are urged to take a strategic strategy to steer clear of the trap of relying too much on historical performance. This entails a thorough evaluation of the fundamentals, current state of the market, and future growth potential of an asset. Investors can make more educated decisions that correspond to their level of risk tolerance and financial objectives by including a variety of elements into the decision-making process.

5 FUNDAMENTAL STRATEGY FOR RISK MANAGEMENT

To manage risk and maximize returns in an investment portfolio, portfolio diversification plays a crucial role, as the statement emphasizes. Portfolio diversification is a key tactic used by investors to efficiently manage risk, according to Bodie et al. (2014). Spreading assets over several asset classes with minimal correlation to one another is known as diversification. By reducing the consequences of poor performance in any one asset or industry, this tactical strategy seeks to increase the portfolio's total flexibility and stability.

One risk management strategy that lessens reliance on the success of certain assets or industries is diversification. The possible negative effects of a downturn in one area can be countered by the positive performance of assets in other sectors when assets are chosen from distinct classes with minimal correlation. This aids in reducing the portfolio's overall volatility and risk exposure. Although risk management is the main goal of diversity, the phrase also suggests that investors may be able to maximize returns by systematically diversifying across a variety of asset types. This is because, over time, a well-diversified portfolio will be more resilient to market swings and yield more steady returns. A comprehensive approach to portfolio creation is emphasized by the concept of diversification. Investors are advised to think about the total mix of asset classes rather than focusing on certain high-performing assets. This more expansive viewpoint is steady with the basic outline that a diversified portfolio can lead to more stable and possibly profitable long-term investment outcomes due to its lower risk exposure. (Jones & Johnson 2018.)

5.1 Assessment of risk tolerance and investment goals

Investors are advised to evaluate their risk tolerance and investing objectives thoroughly before beginning the diversification process. This customized strategy recognizes the diversity of every investor's objective, risk tolerance, and financial circumstances (Ferri 2017). Investors can make well-informed judgments regarding the amount of risk they are comfortable taking on in their investing portfolio by being aware of their risk tolerance. According to Ferri (2017), an investor's risk tolerance should be taken into consideration when figuring out how diverse their portfolio should be. A person's risk tolerance is defined as their capacity and

willingness to tolerate fluctuations in the value of their investments. By balancing risk and possible returns, this evaluation assists investors in matching their comfort level and overall financial goals with the diversification plan.

Determining one's investment objectives is also essential. Several goals can be pursued by investors, such as long-term capital growth, income generation, or both. The kind of these objectives affects the kind of assets chosen and the degree of diversity needed to reach them. For example, an investor who is looking for long-term gain would choose a more aggressive and diverse portfolio, whilst an investor who is more concerned with income might go for a more conservative strategy. The evaluation of investment objectives and risk tolerance plays a part in the overall building of an investment portfolio. This method acknowledges that diversification is a strategy that should be customized to each person's interests and goals rather than being a one-size-fits-all approach. It emphasizes how crucial it is to match the investor's specific financial situation and goals with the diversification plan. (Jones & Johnson 2018, 72-85)

5.2 Investment diversification

Having a varied portfolio is one of the best ways to become financially independent, and keeping things straightforward is frequently beneficial. One of the most crucial decisions a novice investor can make is how much money to put into each class of asset. Purchasing many different instruments is not the only way to diversify a portfolio. It also depends on how well those various assets complement one another and whether there is a likelihood of correlation between their price movements (Etoro Academi 2024). Building a well-diversified investment portfolio requires careful planning that considers each investor's financial objectives, time horizon, and risk tolerance. Choosing assets carefully is more important than picking them at random if one wants to make sure their portfolio fits their unique investing goals (Bodie et al. 2014).

5.3 Define investment goals

Clearly defining investing goals is the first stage in creating an investment plan. These objectives function as the cornerstones around which other asset allocation choices are made. Whether long-term growth, income generation, or a mix of the two are the main priorities, having clear goals for investments offers a path forward for building a portfolio that supports the investor's financial objectives. Individuals have many types of investment goals. Some investors put long-term growth first, hoping to see capital gains over a protracted period. Others could place a higher priority on generating income to meet their present and future financial needs with a consistent flow of returns. There are however investors that take a more balanced approach, looking for both income and growth. The differences between these objectives affect the choices made later in the asset allocation procedure. (Bodie et al. 2014.)

Setting clear investment objectives lays the groundwork for wise asset allocation choices. This entails calculating the percentage of assets distributed across various classes in accordance with the investor's purposes and risk tolerance. For example, an investor seeking long-term gain could allocate a larger percentage to stocks, whereas an investor who places a higher priority on income generation might favor fixed-income assets. A portfolio's overall design is aided by the process of identifying investing goals. It guarantees that the strategy as a whole and the assets chosen to meet the investor's overall financial goals. The objectives give clarity and direction throughout the investing process by serving as a standard by which the performance of the investment portfolio can be evaluated. (Bodie et al. 2014.)

5.4 Time horizon assessment

Ferri (2017) highlights how important it is to consider the time horizon when choosing an investment. The term "time horizon" describes how long an investor plans to hold onto an investment before having to sell it. Comprehending this parameter is of utmost importance as it significantly impacts an investor's ability to bear risk and guides the choice of assets that correspond with their financial objectives. Investors with longer time horizons have more freedom to take on risk. This is because the longer time frame offers a chance to recover from transient market swings. Longer time horizons might be more favorable to assets with higher growth potential, like stocks, which historically have shown higher volatility but also have the potential to provide large long-term gains. On the other hand, people who have shorter time horizons could value stability above expansion. In these situations, the emphasis can move

to investments that preserve cash and offer a steady income stream. For example, investors with shorter time horizons frequently prefer fixed-income instruments because of their regular income flow and lower volatility. (Jones & Johnson 2018.)

An investment portfolio's risk and return balance depends critically on the evaluation of the time horizon. It enables investors to modify their asset allocation plan in accordance with their unique requirements and situations. This customized strategy ensures that the selected assets match the investor's capacity to withstand market swings and reach their financial goals within the allotted period. A comprehensive and individualized approach to asset management is enhanced by the inclusion of the time horizon evaluation in the investment decision-making process. By matching the investment plan to each person's particular situation, it offers a way to build a portfolio that achieves equilibrium between reward, risk, and time. (Jones & Johnson 2018.)

5.5 Risk tolerance evaluation

Considering an individual's comfort level with risk and volatility is a necessary step in determining their risk tolerance. Risk tolerance refers to an investor's capacity and willingness to tolerate fluctuations in the value of their investments. Comprehending and evaluating this degree of comfort is essential, as it serves as the foundation for building a portfolio that corresponds with the investor's ability to manage risk both financially and psychologically. (Ferri 2017.)

The assessment procedure considers the fact that different investors have different tolerances for risk. The degree to which investors are willing to tolerate uncertainty, possible losses, and market volatility may vary. While some people may be more risk-tolerant and prepared to tolerate greater volatility in the hope of potentially higher returns, others may be more risk-averse and prefer steady but lower-returning investments. The statement emphasizes how crucial it is to match the investor's risk tolerance with the investment portfolio. A successful investing plan depends on this alignment since it guarantees that the assets selected, and the overall composition of the portfolio represent the investor's comfort level with risk. A portfolio that is aligned reduces the probability of experiencing psychological distress

during market changes, so encouraging a more resilient and sustainable attitude to investing. (Smith & Brown 2020.)

Investment strategy customization is informed by the assessment of risk tolerance. Investors with greater risk tolerance may decide to take a more aggressive tactic with a larger percentage allocated to stocks, which have traditionally exhibited better volatility but also maximum return potential. Alternatively, people who are less risk-tolerant might take a more conservative stance, placing more of an emphasis on stability and capital preservation. Including an assessment of risk tolerance in an investment plan is a strategic way to make decisions. It acknowledges that effective investment entails comprehending and considering the psychological aspects of risk management in addition to pure financial measures. Investors can handle the market with more confidence and adherence to their long-term financial goals by matching their investments with their risk preferences. (Smith & Brown 2020.)

5.6 Seek professional guidance

The remark highlights how crucial it is to take financial advisors' expert advice into account when creating a diverse investment strategy. It emphasizes how dynamic portfolio development is, how important it is to check it constantly, and how expert counsel catered to a person's specific situation can be beneficial. To create a diverse investment portfolio, Bodie et al. (2014) state that consulting a financial advisor is essential. Financial advisors can assess an investor's objectives, time horizon, and risk tolerance in a thorough manner because of their knowledge and experience. The recommendation of an asset allocation plan that is in line with the unique circumstances of the investor is based on this examination. (Smith & Johnson 2020.)

Financial advisors offer individualized advice by customizing their suggestions to meet the requirements and goals of every investor. Their knowledge enables them to have a sophisticated awareness of a person's financial circumstances, which enables them to provide strategic guidance that goes beyond simple suggestions. This tailored methodology guarantees that the suggested asset allocation plan is precisely tailored to the unique situation of the customer. The statement recognizes that creating a diverse investment portfolio is a continuous process that calls for constant observation and modification. Financial advisors, who

keep up with shifting market conditions and financial situations, are essential to this ongoing process. Their capacity to change and suggest portfolio modifications helps guarantee that it stays in line with the investor's changing objectives and the constantly shifting investment environment. (Smith & Johnson 2020.)

Investors increase their chances of creating a portfolio that successfully fits their specific needs and goals by adhering to the suggested procedures and getting expert advice. Financial adviser participation not only offers a level of experience but also helps make better-informed, strategic decisions, which may increase the investment strategy's overall performance. Including expert advice while building a portfolio is one way to promote comprehensive wealth management. Financial advisors help investors with risk management, retirement planning, tax optimization, and asset allocation, among other aspects of financial planning. This all-encompassing strategy guarantees that the investment portfolio is in line with the investor's overall financial goals. (Smith & Johnson 2020.)

6 EMPIRICAL STUDY: COMPANY X, BANGLADESH

The main reason for choosing Company X for the research assignment was to identify a company that was regarded as taking investment diversification strategy seriously. Several indicators suggested that Company X should be the primary choice for the study. To begin with, the organisation is a reputable financial firm in Bangladesh. Second, the company deals with a wide range of investment goods and services because it is solely a financial company. Third, by strategically diversifying its investments, the company successfully reduces investment risk.

6.1 About Company X, Bangladesh

Among the top non-bank financial companies in Bangladesh, Company X offers leasing finance. This third-generation financial institution was established as a Public Limited Company on September 26, 2001, with BDT 51 million as its initial paid-up capital and BDT 400 million as its authorised capital. In July 2005, the company floated its shares on the stock market for public subscription. As of December 31, 2008, the issued and fully paid-up capital of the firm was BDT 344 million. (Company X 2023.)

The business changed its name on September 25, 2007. On February 4, 2002, Bangladesh Bank granted the company a licence to conduct business as a financial institution. Under the Financial Institutions Act of 1993, the Bangladesh Bank oversees all the company's operations. Beginning on February 25, 2002, the company entered the Bangladeshi leasing market. It operated by providing Lease Finance and Term Finance for a range of industries, including transportation, industrial expansion, home furnishings, office equipment, agricultural equipment, and industrial machinery and equipment. (Company X 2023.)

6.2 Objectives

Company X extends financial services for the BMRE (Balancing, Modernization, Replacement, and Expansion) strategy, which aims to improve the quality and diversify the products

offered by current productive industrial units and businesses, prioritises investments in export-oriented and import-substituting industries, funds for the development of jobs and the reduction of poverty in small and medium-sized enterprises (SME), funds for the purchase of tools and machines for the construction of infrastructure, provides funding to professionals and fixed-income groups so they can buy household appliances and other necessities, offers loans for the building or acquisition of houses, apartments, retail space, or other real estates. (Company X 2023.)

Company X makes investments in high-priority areas such as the BMRE of already-existing industrial units, export-oriented, import-substitute, and locally sourced raw material-based industries projects for the development of infrastructure the sectors that generate power include the pharmaceutical industry, small and medium-sized enterprises (SME), hospitals, clinics, and diagnostic centres. (Company X 2023.)

6.3 Products and services

In order to satisfy the various financial demands of people, companies, and organisations, Company X provides an extensive range of products and services. It offers competitive and easily accessible solutions. Furthermore, their investment offerings include deposit schemes, leasing finance, term loans, SME financing, syndicated financing, and home financing. Company X offers lease finance, a sort of financing that allows companies to get money to buy different kinds of assets without having to buy them all at once. Rather, the assets are rented or leased for a predetermined amount of time, usually a few months to several years. A wide range of assets, such as heavy machinery, automobiles, engines, generators, boilers, medical equipment, office equipment, and more are available for lease financing from Company X. All the main industrial sectors, including manufacturing, healthcare, construction, and transportation, depend on these assets to run their operations. (Company X 2023.)

Businesses can acquire the equipment they require to support operations and growth goals without having to make a sizable upfront investment by using lease financing. Businesses can benefit from the utilisation of vital assets while conserving funds for other strategic objectives thanks to this arrangement. Furthermore, lease finance provides flexibility regarding the

length of the lease, the payment plan, and the options available at the end of the lease, giving businesses customised solutions to match their unique requirements and budgetary goals. Company X offers lease finance that helps companies maximise operating efficiency and effectively control equipment acquisition costs. (Company X 2023.)

6.3.1 Term loan

Term loans are offered to companies by Company X to cover a range of fixed and capital expenses. These loans are normally paid back over a predetermined period, which can be anywhere from a few years to several decades and are intended for long-term funding needs. Term loans are used by businesses for a variety of reasons. Term loans can be utilised to acquire the raw materials needed for production or manufacturing processes. Term loans, which are used to finance stock purchases and accounts receivable, can assist businesses in managing their inventory levels. Regular running costs, such as rent, salaries, and utility bills, can be paid for with term loans. Term loans can be used by businesses to grow into new product lines or diversify their current product offers. To increase productivity and efficiency, money from term loans can be used to upgrade or modernise manufacturing facilities. Term loans can help companies grow by providing funds to expand their operations or buy more space. (Company X 2023.)

Additionally, long-term loans created especially for real estate developers and people wishing to buy houses or apartments are provided by Company X. These loans offer help and funding for a range of real estate initiatives. Developers of real estate can get finance from Company X to create houses, apartments, and other residential structures. Long-term loans from Company X are available to people looking to fund the purchase of houses or apartments. Financial support is provided by Company X for the construction of commercial properties, including warehouses, retail stores, and office buildings. With various payback terms and affordable interest rates, Company X term and long-term loans meet both people's and enterprises' varied financing needs. This helps them with their growth and development objectives to cover a range of recurring capital and fixed expenses, such as the purchase of raw materials, cash outlays for inventory and receivables, day-to-day cash outlays for expenses related to the balance of the product line, modernization of the manufacturing process, expansion of capacity & space, etc. (Company X 2023.)

6.3.2 SME finance

Company X offers small and medium-sized businesses (SMEs) SME funding. These loans are designed with the express purpose of assisting SMEs in expanding and developing. SMEs are essential to economic progress since they reduce poverty, create jobs, and boost the industrial sector. SME finance seeks to empower small company owners and entrepreneurs, especially those from marginalised or underserved regions, by offering financial support to SMEs. These entrepreneurs can launch or grow their companies, create revenue, and raise their standard of living thanks to access to financing, which helps reduce poverty. The extension of current employment possibilities as well as the creation of new ones is facilitated by SME funding, which helps SMEs grow. (Company X 2023.)

Small-scale engineering companies that manufacture or produce light engineering goods can receive financial support from SME funding. These could include tools, machines, or parts used in the construction, automotive, or electronics industries, among others. ME finance fosters industrial development, economic competitiveness, and technological innovation by providing funding to small light engineering firms. SMEs engaged in the production of fast-moving consumer goods (FMCG) are also the focus of SME funding. FMCG products include items like food and drink, personal hygiene products, and necessities for the home that are swiftly sold at low rates. By addressing customer demand and promoting economic growth, FMCG businesses can invest in manufacturing facilities, raw materials, marketing, and distribution channels thanks to financing supplied to them. The expansion and sustainability of SMEs, which are critical engines of economic growth, employment creation, and poverty alleviation, are supported in large part by SME credit. SME financing helps create robust and inclusive economies by facilitating access to resources and offering financial support. (Company X 2023.)

6.3.3 Syndicated finance

Syndicated finance is a type of financial arrangement wherein several banks and other financial institutions work together to supply funds to meet the substantial financial requirements

of a given project or business. Projects needing significant capital expenditure, like megastructures, power generation facilities, and high-tech agro-based industries, are frequently funded using this type of funding. By combining their resources, several lenders can offer a single borrower a sizable amount of capital through syndicated finance. Spreading the risk of lending to a single borrower is achieved by each participating bank or financial institution contributing a share of the total loan amount. Syndicated finance is generally used for endeavours or projects whose financial needs are substantial and surpass the lending capabilities of specific banks or financial organisations. These initiatives include building megastructures like bridges, skyscrapers, or infrastructure projects; they also involve investments in power generation facilities and cutting-edge agriculture technologies. Syndicated finance reduces the risk exposure of each participating institution by syndicating the loan among several lenders. Lenders can fund large-scale projects without taking on the full risk of default or loss due to this risk diversification. (Company X 2023.)

Company X syndicated finance arrangements are customisable to the borrower's and project's unique requirements. Given the type of project, the risk involved, and the state of the market, it provides adjustable terms, payback plans, and interest rates. Certain businesses or sectors, such power generation, high-tech agro-based sectors, or mega-structures, are the focus of syndicated finance. Lenders may evaluate a project's viability and reduce associated risks by utilising their industry knowledge and skills, thanks to this sector-specific focus. For big projects that need significant funding beyond what individual lenders can offer, Company X syndicated finance offers a strategic financing option. Syndicated finance helps lenders provide borrowers with access to the money they need to launch big projects and spur economic growth by combining their resources and knowledge. (Company X 2023.)

6.3.4 Housing finance

Housing finance offers monetary support to individuals or families to enable the building, acquisition, or remodelling of residential homes. Through this type of funding, people can meet their housing demands by applying for loans or mortgages from financial institutions. Company X provides financing for home construction, including loans intended especially to help individuals or families build their residences. These loans are made specifically to fit each borrower's criteria and desires, giving them the money they need to construct the homes of

their dreams. A few of the benefits that Company X offers for house-building finance are competitive interest rates, flexible terms for repayment, and loan amounts that are tailored to the size and cost of the construction project. (Company X 2023.)

Apart from its housing finance programme, Company X can take part in the Bangladesh Bank's refinancing programme. Under this programme, the central bank would help financial institutions refinance so they can offer housing loans to qualified borrowers. By giving financial institutions access to low-cost capital, the refinancing scheme seeks to promote affordable housing finance and support national housing development projects and homeownership rates. To help people and families find affordable housing, housing financing is essential for advancing socioeconomic development and raising living standards. Company X promotes the goals of homeownership and housing development in Bangladesh by providing funding for the construction of new homes and taking part in refinancing programmes. This enables people to acquire a place to live and create better futures for themselves and their families. (Company X 2023.)

6.3.5 Deposit schemes

The Company X Monthly Saving Scheme (MSS) is a planned savings programme that aims to assist people in building savings over a certain time frame. Participants in the MSS may be any adult with a healthy mental state. Both new and current Company X clients are eligible to apply for this programme. At any Company X branch, participants can open one or more MSS accounts under one name. People can manage various savings objectives or accounts under a single membership thanks to this flexibility. With the ability to select a period that fits with their financial goals and savings objectives, participants in the MSS can choose terms of 3, 5, and 8 years. Regular monthly contributions to their MSS accounts are required of participants for the duration of the specified period. Individual financial circumstances and savings goals may influence the monthly contribution amount, which is at the participant's discretion. Monthly contributions made by participants are accumulated in their MSS accounts during the scheme, which contributes to the progressive building of their savings balance. Several financial goals, such as emergency fund building, education savings, or retirement preparation, can be accomplished with these savings. (Company X 2023.)

Participants in MSS accounts can increase their savings balance more quickly by earning interest on their accumulated savings. The interest rate that applies to MSS accounts might change depending on several variables, including the scheme's duration and the state of the market. When the MSS term matures, participants can choose to withdraw their investments and interest. Alternately, depending on the terms and conditions of the plan, partial withdrawals or early closures can be allowed in specific situations. All things considered, the Monthly Saving Scheme (MSS) gives people a methodical and systematic way to save money, enabling them to create a safety net for their finances and work towards their long-term financial objectives. The MSS accommodates the various needs and interests of savers by providing flexibility about term options and contribution levels, so enabling individuals to assume greater control over their financial destiny. (Company X 2023.)

The goal of Company X Monthly Income Deposit (MID) programme is to give people a reliable and consistent monthly income stream. The MID programme is designed for people who want to use their savings to generate a consistent income. It is especially appropriate for seniors, housewives, and retirees who depend on a fixed income to cover their living expenses and debts. Depositors receive a predetermined monthly return under the MID system, which is based on the amount deposited. Because of the consistency and certainty this guaranteed return offers, depositors may confidently plan their financial future. Depending on the depositor's financial situation and investing objectives, deposit quantities may change. Depending on their choices and financial situation, people can decide whether to contribute to their MID account on a regular basis or in one single sum. (Company X 2023.)

Depositors can guarantee a consistent monthly income stream by participating in the MID scheme. This consistent income can be utilised to augment other sources of income or to pay bills and cover daily costs. Those who place a high priority on generating income and maintaining financial stability can choose the MID programme. It appeals to cautious investors looking for consistent income without subjecting themselves to large market swings because it provides a low-risk investment alternative with predictable returns. Depositors who use the MID plan can conveniently access their monthly income, giving them the freedom and liquidity they need to properly manage their finances. The specified channels of the banking institution make it easy to make withdrawals. With its set monthly return, the MID programme helps depositors reduce the risk of income fluctuation. For retirees and those with limited

earning potential who depend on a steady income stream to meet their financial needs, this steadiness is extremely beneficial. (Company X 2023.)

An opportunity to earn significant returns over a short investment time is what Company X Quarterly Income Deposit (QID) scheme is all about. Depositors may invest their funds for a short period typically three (3) months under the QID programme. People can take advantage of opportunities to gain large returns in a short amount of time by investing during this relatively brief period. Depositors may receive substantial returns on their investment over three months by participating in the QID scheme. The scheme seeks to optimise the return for depositors within the restricted investment horizon by taking advantage of short-term investment opportunities and various market situations. Depositors must pledge their money for the whole investment time under the QID, just like they would under other term deposit plans. In this period, depositors can take advantage of the fixed interest rate and possible capital growth because the deposited sum is locked in. (Company X 2023.)

The QID plan has the potential to yield large returns, but it also has some of the hazards associated with making short-term investments. Variations in deposits and market volatility could affect how well the investment performs over three months. Depositors can lessen these risks, though, by diversifying their investment portfolio and using wise risk management techniques. The QID programme offers liquidity options to depositors despite the predetermined investment duration. Depositors can choose to seek alternative investment possibilities, withdraw cash, or reinvest the main amount upon the deposit's maturity, depending on their financial objectives and the state of the market. Through the designated channels of the financial institution, which include online platforms and branches, depositors can conveniently engage in the QID system. For depositors looking for short-term investment solutions with strong return potential, the simplified investing process guarantees accessibility and simplicity. People looking for alternatives for short-term investments with the possibility of earning attractive returns should consider the QID plan. To take advantage of market opportunities and increase their investment yield, it serves depositors who are prepared to commit their cash for a short time. (Company X 2023.)
With a six-month investment period, Company X Half-Yearly Income Deposit (HID) scheme offers depositors the chance to earn competitive returns. Depositors have six (6) months to invest their funds under the HID scheme. People can profit from the possible returns produced during six months thanks to this comparatively short investment horizon. Depositors

can expect an enticing rate of return on their money over six months with the HID plan. The programme seeks to offer depositors competitive returns on their deposited cash by taking advantage of market opportunities and interest rate fluctuations. (Company X 2023.)

Depositors must commit their cash to the HID for the whole six-month investment period, just like they would with other term deposit schemes. Depositors can take advantage of the fixed interest rate and possible capital growth during this period since the deposited amount is kept invested. As with any short-term investments, there are dangers involved with the HID scheme, even though it has the potential to yield attractive rewards. Over the six months, changes in interest rates and the state of the market could affect how well the investment performs. On the other hand, depositors can somewhat reduce these risks by diversifying their investment portfolio and using wise risk management techniques. There are liquidity options available to depositors under the HID plan, despite the restricted investment duration. Depositors can decide whether to withdraw money, reinvest the principal, or investigate other investment options depending on their financial objectives and the state of the market when the deposit matures after six months. The financial institution's authorised channels, such as its branches or online platforms, make it simple for depositors to engage in the HID scheme. For depositors looking for short-term investment options that have the potential to yield good returns, the shortened investing process guarantees accessibility and ease. For those looking for short- to medium-term investment alternatives with competitive return potential, the HID plan is a great option. To maximise investment income and take advantage of market opportunities, it serves depositors who are prepared to commit their cash for six months. (Company X 2023.)

Depositors of Company X Annual Income Deposit (AID) plan get yearly returns on their assets, which serves as a consistent source of income. Depositors may invest their money under the AID plan for a set period, usually a year. Depositors might profit from their investments during this time because the money they have put in is still invested with the financial institution. The substantial annual return on the deposited amount is the main characteristic of the AID plan. Depositors get a dividend yield, or fixed interest rate, from the financial institution at the end of each year. Investors looking for consistent profits on their assets can benefit greatly from this yearly income. (Company X 2023.)

Like other term deposit programmes, depositors must commit their money for the whole year with the AID. To guarantee continuity and consistency in the revenue stream from the investment, the deposited amount stays invested with the financial institution during this period. Because they get yearly returns on their investments, depositors under the AID plan have a steady source of income. Depositors can confidently meet their financial responsibilities and investment goals due to the regularity of income payments. Although the AID programme has the potential to yield substantial annual returns, it also carries some of the dangers related to fixed-term investments. Variations in interest rates, prevailing economic conditions, and market volatility are some of the factors that could affect the investment's performance. Depositors can lessen these risks, though, by diversifying their investment portfolio and using wise risk management techniques. Depositors can choose to access their assets or reinvest the returns when the AID plan matures, notwithstanding the stipulated one-year investment period. By allowing depositors to modify their investment plan in response to shifting market conditions or financial demands, this flexibility improves liquidity and financial agility. (Company X 2023.)

The Double Money Deposit (DMD), provided by Company X, doubles an investor's capital deposited within a predetermined time frame, helping them reach their long-term financial objectives. The DMD programme is based on the time-specific investment concept, in which depositors commit their money for a set amount of time. The financial institution holds the deposited sum during this time, and it may earn interest or returns by the terms and circumstances of the plan. The guarantee that depositors' money would be doubled within the allotted investment period is the main characteristic of the DMD plan. Depositors receive a significant capital boost when their initial deposit rises to twice its original worth through the gradual accumulation of interest or returns. (Company X 2023.)

For anyone looking to meet significant future financial needs, such as covering college costs, buying a home, or making retirement plans, the DMD scheme is a useful tool. Depositors can methodically accumulate wealth and meet their long-term financial goals by making investments in the DMD plan. The DMD plan increases the potential for wealth growth by providing depositors with an extremely attractive rate of return on their investment. People are encouraged to invest their money and take advantage of the chance to double it within the allotted time by the scheme's competitive interest rates or returns. Depositors can select the deposit

amount and investment period that most closely match their financial objectives and risk tolerance thanks to the DMD scheme's flexibility. Depositors can also take advantage of various schemes at the same time to diversify their investment portfolio and increase profits. (Company X 2023.)

Depositors normally need to make a minimum deposit to take part in the DMD scheme; however, this requirement may change based on the rules of the financial institution. Nonetheless, the minimal deposit requirement is established at a reasonable level to guarantee accessibility for a broad spectrum of investors. By providing depositors with timely receipts, the DMD system promotes accountability and transparency in the investing process. Additionally, the plan offers simple interest withdrawal and encashment options, making it simpler for depositors to access their money as needed. Depositors using the DMD scheme can take advantage of a fast loan facility, which allows them to borrow up to 80% of the deposited amount secured by their investment, in addition to receiving significant returns on their investment. With the help of this tool, depositors will have more financial flexibility and liquidity to take advantage of investment possibilities or short-term funding needs. (Company X 2023.)

6.4 Investment diversification strategies of Company X

Company X is a pioneer in customised investment diversification plans that enable clients to confidently navigate the ever-changing financial environment. Rich in market knowledge, Company X provides a wide array of varied investment options that are tailored to meet the individual financial goals and risk tolerance of its clients and maximise risk-adjusted results.

Utilising state-of-the-art research and analytics, their team of expert professionals builds well-balanced portfolios that minimise risk and grab growth opportunities, whether through asset allocation, sector rotation, or portfolio rebalancing. In a situation where the market is always changing, Company X, as a reliable partner, provides excellence in investment management by assisting customers in creating robust and sustainable portfolios for long-term success.

6.4.1 Strategy to achieve the required capital suitability

The organisation wants to mandate that business clients who are not assessed get credit ratings from Bangladesh Bank-approved External Credit Assessment Institutions (ECAIs). The objective of this approach is to improve risk assessment and transparency by offering standardised credit ratings to business clients. The institution may more accurately assess the creditworthiness and financial health of its business clients by receiving credit ratings from reliable ECAIs. This lowers the risk of default and guarantees responsible lending practices. The organisation intends to put strict monitoring protocols in place for past-due contracts, with an emphasis on bringing contracts under 90 days past due. The goal of the institution's proactive actions to handle payment delays and closely monitor past-due contracts is to reduce the negative effects of delinquent accounts on its liquidity and financial performance. Prompt resolution of outstanding payments can be facilitated by timely intervention, which can also help prevent further worsening of past due contracts. (Disclosure under Piller III 2018.)

Before authorising any financing appraisal, the organisation suggests evaluating the additional impact of capital costs relative to the anticipated net revenue from financing. This means assessing the possible effect on the institution's anticipated net income from financing activities of capital charges, such as risk-weighted assets or regulatory capital requirements. The institution can guarantee the financial viability of proposed lending activities and their alignment with its risk management objectives by taking the consequences of capital charges into account when making financing decisions. Since these clients will bear a set risk weight of 75% for recurring contracts, the institution plans to focus on Small and Medium Enterprises (SMEs) with exposure up to BDT 1 crore. The institution hopes to improve risk management and resource allocation by focusing on SMEs with minimal exposure. By concentrating its efforts, the organisation can provide loans to small and medium-sized businesses (SMEs) while reducing the possible credit risks linked to greater exposures. (Disclosure under Piller III 2018.)

Financing for consumers with strong credit scores will be given priority by the institution. The institution can improve the quality of its loan portfolio and lower credit risk by concentrating on customers with favourable credit profiles. Financing customers who have a history of creditworthiness reduces default rates and enhances total loan performance. This strategy supports the goal of the organisation, which is to uphold responsible lending practices and strong credit quality. By taking acceptable financial collateral against transactions, the institution

hopes to increase the effectiveness of credit risk reduction strategies. Accepting collateralized assets as security for financing agreements allows the institution to reduce its exposure to credit risk and protects its interests in case of default by borrowers. This tactic improves the institution's capacity to efficiently manage credit risk while adding an extra degree of security. To boost retained earnings, the institution plans to put more of an emphasis on booking high spread earning assets. Prioritising the purchase of assets with larger spreads loans or investments with attractive interest rates, for example, will help the institution increase both its profitability and capacity to generate revenue. The long-term growth goals and financial viability of the institution are aided by this strategic focus on assets with significant spread earnings. (Disclosure under Piller III 2018.)

6.4.2 Credit risk

According to the Bangladesh Bank's Prudential Guideline on Capital Adequacy and Market Discipline for Financial Institutions, the unsecured portion of any claim or exposure (apart from claims secured by residential property) that is past due for 90 days or more, net of specific provisions (including partial write-off), will be risk-weighted by the risk weights of the corresponding balance sheet exposures. Credit Risk Mitigation may consider any qualifying financial collateral to determine the net exposure of the past-due loan. The credit policy of the organisation, which contains thorough explanations of the main tenets, growth plan, exposure limitations (for certain industries, products, individual companies, and groups), and risk management procedures, has been authorised by the board of directors. Credit Policy is updated frequently to take into account changing environmental, domestic, and global economic conditions. (Disclosure under Piller III 2018.)

At Company X, to assess projects from a risk-weighted standpoint, assist management in creating an exceptional credit portfolio, and maximise profits from risk assets, a distinct Credit Risk Management (CRM) Department has been formed. The market environment and exposure of Company X in diverse industrial sub-sectors are routinely examined by the CRM research team. In compliance with the guidelines set forth by the Central Bank, CRM has been kept apart from the Credit Administration Department. Before recommending any credit proposal, CRM evaluates credit risks and makes mitigation suggestions, and Credit Administration verifies that sufficient security documentation is in place prior to payment. A robust Law

and Recovery Team keeps an eye on the loans and advances, spots early indicators of delinquencies in the portfolio, and implements corrective actions to reduce risks, enhance credit quality, and guarantee timely loan recovery, including taking legal action. At Company X, appropriate internal control procedures are in place. To guarantee adherence to authorised lending criteria, Bangladesh Bank rules, operational procedures, the sufficiency of internal control, and documentation procedures, Company X has also formed the Internal Control and Compliances Department (ICC). To address these hazards, ICC develops and puts into effect policies. (Disclosure under Piller III 2018.)

The Credit Evaluation Committee (CEC) convenes regularly to examine lending-related market and credit risk, as well as to suggest and carry out suitable countermeasures. The present global financial crisis and its potential effects on projects are taken into consideration when the CEC evaluates proposals critically. A financial institution can better comprehend the many types of risks associated with transactions with small company clients who operate in different parts of the nation by using the Risk Grading Model (RGM). To facilitate well-informed decision-making and advance the safety and soundness of the company, Company X has been building and managing RGM. With the use of this approach, credit risk is quantified, and individual and group credit risks are distinguished. This enables examiners and management to keep an eye on variations and patterns in risk levels. To maximise returns, the procedure also enables the management to control risk. (Disclosure under Piller III 2018.)

To lower credit risk, Company X requests a credit report from the Credit Information Bureau (CIB) of Bangladesh Bank. CRM and CEC thoroughly go over the data to understand the client's payment patterns and financial circumstances. Varying on the report, bankers' views are acquired from customers' banks. We consider the opinions of suppliers and buyers to comprehend the standing and repute of the market of our suggested clients. The approval procedure is managed by a layered system that guarantees prompt service and credit risk reduction. The loan amount determines the establishment of a tiered approval process. Because smaller loans are more common and historically less risky, lower approving power is predicted to increase the shift time and related risk. Because of the additional risk, larger loans are scrutinised more closely. As a result, there is more penal authority. (Disclosure under Piller III 2018.)

Company X is a proponent of sectoral and product diversification. The business diversifies its lending exposure across several industries to reduce credit risk while adhering to Central Bank regulations. Every sector has a threshold restriction set so that any negative influence on the industry will have the least possible effect on the overall return of Company X. The guidelines provided by the Central Bank are closely adhered to when determining the Large Loan/Single Borrower limit. To reduce risk, significant groups or geographic concentrations of credit are carefully avoided. Loan performance is routinely tracked to set off an early warning system for loans and advances whose performance exhibits a declining trend. It helps the business to expand its credit portfolio to safeguard stakeholders' interests. (Disclosure under Piller III 2018.)

The loan portfolio of Company X is measured by the amount of arrears on the payments. Regular monitoring is conducted to assess the degree of impairment on loans and advances. As per the FID Circular No. 3, Dated March 15, 2007:

1. A loan or lease that has 100% provision and is categorised as bad or loss can only be written off.
2. Before the write-off, the Board of Directors' approval is required.
3. The loan/lease written-off amount should be continuously pursued by the financial institutions. Legal charges ought to be filed before the write-off if the client has not been the target of legal action.
4. The financial institutions may designate third-party agents to hasten the legal settlement or collection of the outstanding sum.
5. Written-off loans and leases should have their ledger, and the total written-off value should be stated separately in the financial institutions' annual report and balance sheet under the title "notes to the account."
6. The client should be notified to CIB as a defaulter even if the loan or lease has been wiped off. Every one of these write-off accounts has detailed records that are monitored closely. (Disclosure under Piller III 2018.)

7 RESEARCH METHODOLOGY

"Research methodology" refers to the systematic strategy and techniques that investigators employ to plan, carry out, and evaluate their studies. The road map ensures thorough, dependable, and legitimate data collecting and analysis by directing the research process. Choosing the best research methods (qualitative, quantitative, or mixed), formulating research questions or hypotheses, outlining the goals of the study, and creating plans for data collection, analysis, and sampling are all crucial parts of research methodology.

Qualitative research methodologies were used in this study to combine the subject field's viewpoint. This qualitative method aligns with the data collected from qualitative research. In this study, primary data is collected from the interviews. To assess the significance of investment diversification for a financial company's sustainability, primary data were used in the research. The study evaluated the significance of investment diversification for a financial company's sustainability using qualitative research methods.

7.1 Research philosophy

When investigating the significance of investment diversification for a financial company's sustainability, it is imperative to establish the research philosophy that will guide the employed methodology and methodologies. The research philosophy has an impact on the methods used for data collecting and analysis. The approach selected for the empirical investigation is influenced by the research topic, study aims, and philosophical perspective. The qualitative method is considered in this investigation. However, business researchers typically consider either quantitative or qualitative methodologies when collecting and analysing data. (Hurmerinta-Peltomäki & Nummela 2004)

The quantitative approach is more inflexible, systematised, and structural than the qualitative methodology, which provides a flexible means of revealing the intricate phenomena of any subject. The qualitative methodology is relevant given the inductive approach and the investigation's purpose of comprehending the problem (Eriksson & Kovalainen 2008). This study

uses interviews as its method. Zoom was used to take interviews with the management personnel. Finally, the study's results are consistent with the idea that qualitative research methods are preferable to quantitative ones when analysing the significance of investment diversification for a financial company's sustainability (Collis & Hussey 2009; Eriksson & Kovalainen 2008; Saunders et al. 2007).

7.2 Research design

This study aims to investigate the importance of investment diversification for the sustainability of a financial company through the study of Company X. It is one of the leading non-banking financial companies in Bangladesh. The qualitative findings provide support for the study approach that was chosen. The qualitative data are used to theoretically assess the conclusions .

Qualitative data will be collected through empirical study research. The theoretical material gives an overview of the topic. According to Zhang Lirolami-Raimundo, Echeimberg, and Leone (2018, 356-360), the confirmatory function of research derived from quantitative data complements the exploratory aspect of qualitative research. The relationship between the variables is confirmed by qualitative analysis.

7.3 Data collection and analysis

Qualitative research is expressed verbally. It is used to understand concepts, emotions, or experiences. It is feasible to gather thorough knowledge about poorly understood subjects thanks to this kind of research. Common qualitative procedures include open-ended interview questions, verbal descriptions of observations, and literature reviews that explore concepts and theories (Streefkerk 2023). The core data for the study comes from interviews with employees of Company X using an interview questionnaire in Appendix 1. This data collection process has made use of the convenience sampling approach. These conversations with the respondents lasted between thirty and forty-five minutes. Furthermore, participation in the replies was completely voluntary.

After gathering data, the researcher analysed it to get significant insights. Using a qualitative research methodology, the study thoroughly examined the significance of investment diversification for a financial company's sustainability. The study investigated the significance of investment diversification for a financial company's sustainability using a qualitative research methodology. The study found that the use of qualitative research methods allowed for a discussion of interviewees' perspectives, experiences, and ideas regarding the significance of investment diversification for a financial company's sustainability.

7.4 Validity and ethical consideration

The validity and reliability of a study are crucial elements that ensure the accuracy and consistency of its findings. When investigating the significance of investment diversification for the sustainability of a financial firm in Bangladesh, it was vital to uphold elevated standards of authenticity and reliability. The measurement of the significance of investment diversification for a financial company's sustainability in this investigation met the study's objectives (DeVellis 2017). A crucial element in guaranteeing content validity is assessing items that precisely represent the domains being examined. To assess the significance of investment diversification for a financial company's sustainability, a variety of interview questions should be employed (Trochim & Donnelly 2006). Construct validity is used to assess how closely the chosen constructs represent the theoretical concepts.

The purpose of this study is to verify if the indicators of organisational sustainability and investment diversification that were selected measure the things that they should (Bryman 2015). Reliability is correlated with measuring consistency and stability in research. To increase dependability, this study emphasises the use of standardised data-gathering tools and ensures that data collection procedures are consistent (Bryman 2015). The study uses primary data collection methods to examine the significance of investment diversification for a financial company's sustainability. The researcher thus made a great effort to guarantee that respondent feelings were not hurt and that participant confidentiality was respected. The investigator also made sure that there was no chance of data leaks. To maintain the authenticity and applicability of the data collected, the study mainly focused on current primary data.

8 DATA ANALYSIS AND FINDINGS

The study focused on the importance of investment diversification for the sustainability of a financial company. According to the study investment diversification is important for the sustainability of financial companies. Here analysing the data, the study will show how investment diversification plays a role in financial companies' sustainability and investment risk mitigation. The study also indicates that diversification serves as a moderating factor in times of market volatility.

The diversified investment portfolio demonstrates resilience in volatile market situations by compensating profits in certain areas for losses in others. This balancing effect contributes to a steadier performance throughout the portfolio by reducing the overall impact of market changes on investment returns. Diversification helps investors navigate through volatile market circumstances with greater confidence by distributing investments across a variety of asset classes and sectors. This ultimately protects portfolio performance and preserves long-term value. The results of the study are presented in the following sub-chapters.

8.1 Data analysis

The present study employs primary data analysis to obtain ideas about investment diversification and its significance for financial business sustainability from the qualitative data acquired through interview responses. Reading and rereading the responses helps the researcher become familiar with the data before beginning the analysis process. This stage aids in developing a thorough comprehension of the material and seeing any potential themes or patterns. Ultimately, the investigator construes the results considering the study's goals, establishing links between the recognised themes and the more comprehensive theoretical structure. The analysis aims to clarify the importance of investment diversification and how investment diversification makes a financial company sustainable by demonstrating how diversification tactics support long-term growth, resilience, and viability.

According to Interviewees, in an investment strategy, diversification has several uses. Interviewee 1 states that, investment diversity seeks to balance high-risk investments with more

stable assets to optimise risk-adjusted returns, hence improving the portfolio's overall performance. As per Interviewee 2, investment diversity aims to protect against large losses and minimise the effects of market downturns by distributing investments among a variety of assets. Interviewee 3 argues that, by reducing volatility in the short term and delivering steady returns over time, diversity aids in the achievement of long-term financial objectives. It also lessens the danger of concentration by encouraging a well-balanced portfolio and preventing overexposure to any one asset or industry. So, from the above statements of the interviewees, it is very clear that diversity makes a portfolio more resilient to fluctuations in the market by offsetting losses in one sector with profits in another.

8.1.1 Market instability and performance

Investment returns can be extremely variable in unpredictable market conditions, with some sectors seeing large declines and others staying reasonably stable or even doing well. According to Interviewee 1 & Interviewee 2, by distributing assets over a range of asset classes and industries, diversification is essential for stabilising investment returns. During a market downturn, a portfolio that is highly concentrated in a specific industry that is impacted badly by market volatility, such as technology stocks, is called a concentrated portfolio. The performance of the portfolio might suffer greatly in that scenario. However, the losses in the technology sector can be offset by gains in other sectors if the portfolio is well-diversified and includes investments in industries like consumer staples and healthcare that have been less negatively impacted by the downturn.

Diversification lowers the total risk of the portfolio being unduly impacted by unfavourable market occurrences by distributing investments over a variety of asset classes, industries, and geographical areas. Even during volatile market times, this balancing effect can eventually result in more consistent investment results. Thus, it implies that diversity serves as a technique for risk management in times of market volatility by ensuring that the impact of losses in one area of the portfolio is offset by gains in other areas, which helps to produce more consistent returns on investments.

8.1.2 Factors influencing investment decisions

Interviewees also states that investors take a multifaceted approach to creating a successful investment diversification plan by considering several different criteria such as the state of the market, economic data, liquidity, risk tolerance, cost of investments, and regulatory restrictions. Economic data provides information about the state of the economy overall, and analysis of market current and anticipated developments informs judgements about asset allocation.

Decisions on asset allocation are shaped by an individual's risk tolerance, which is influenced by things like age and financial goals. The ease of turning assets into cash is the main emphasis of liquidity concerns, and minimising investment expenses is essential for optimising returns. Adherence to regulatory mandates guarantees moral and lawful investment methodologies. By assessing these variables, investors can improve their chances of long-term success by creating a diversified strategy that is in line with their objectives, risk tolerance, and market conditions.

8.1.3 Reviews and adaptability

All the interviewees agreed that, through regular reviews intended to pinpoint areas for improvement and ongoing monitoring of portfolio performance metrics, the efficacy of the diversification approach is assessed. To determine whether the strategy is successful in accomplishing its goals, this involves analysing a variety of performance metrics, including risk-adjusted returns, instability measures, and correlation measurements. The portfolio can be kept in line with the company's risk management objectives and investment goals by swiftly addressing any imbalances or deficiencies in the diversification approach through these monitoring actions. Continuous assessment also makes it possible to adapt the strategy to new trends, shifting market conditions, and shifting investor preferences, all of which can improve the plan's efficacy and relevance over time.

The interview respondents also state that the company's approach to fine-tuning its diversification plan heavily relies on flexibility, adaptability, and ongoing monitoring. Being adaptable allows the business to change its investment allocations in reaction to shifting investor mood

and market conditions. This makes it possible to manage uncertainty and possible dangers proactively. Furthermore, continuous oversight guarantees that the diversification plan continues to be in line with the goals and risk tolerance of the business. The corporation can optimise its diversification efforts and boost portfolio resilience by keeping a close eye on investor preferences and market movements. In the end, this proactive strategy helps the business meet its long-term financial objectives and adjust to changing market conditions.

8.1.4 Long-term sustainability and challenges

Diversification of investments is essential to maintaining the company's long-term sustainability and viability. As per statements of Interviewee 2, diversification reduces the chance of suffering substantial losses during market downturns by distributing investments among a range of asset types. By using this risk-reduction approach, the business may better adjust to changing market conditions and maintain its resilience. Furthermore, diversification lessens reliance on any one asset or market sector by offering substitute sources of returns, which encourages flexibility. This strategy eventually promotes a more steady and reliable flow of income, which enhances the long-term viability and financial stability of the business.

Diversification presents several issues and concerns that need to be carefully considered. Keeping a varied portfolio under control can be difficult at times and may require regular allocation adjustments and asset monitoring. Furthermore, there is a chance that investments made across various asset classes would inadvertently overlap or duplicate, which might reduce the benefits of diversification. Additionally, there is a chance that some asset classes underperform, which could jeopardise portfolio performance overall. According to the interview respondent, to meet the company's financial goals and risk tolerance, the portfolio's composition must be carefully analysed considering the trade-offs between risk and return. The business can maximise its diversification plan and achieve long-term financial success by skilfully managing these obstacles.

8.2 Findings

Through the study, it was revealed that investment diversification is important for controlling the risk of financial companies. To mitigate market volatility, the organisation allocates funds among various asset classes, including equities, bonds, real estate, and alternative investments. By distributing risk across several investments, this technique seeks to reduce the possible harm that could result from a decline in any one asset class. As a result, diversification improves the portfolio's general stability by reducing its susceptibility to excessive volatility and assisting in the prevention of large losses. To put it simply, diversity is a proactive risk management strategy that gives the business more resilience and confidence when navigating changing market conditions.

The analysis also shows that the company's investment strategy benefits from diversification in several important ways. First and foremost, it seeks to achieve a favourable balance between risk and reward by matching more stable assets with riskier investments to maximise risk-adjusted returns. Second, diversification lessens the effect of market downturns on the total value of the portfolio by distributing investments across a range of assets. It also facilitates the attainment of long-term financial objectives by offering a steady and predictable growth trajectory over time. Additionally, diversification reduces the risk of concentration by limiting the portfolio's exposure to any one asset or industry, making it more resilient to volatile markets. In general, diversity is acknowledged as a key tactic for creating a stable and long-lasting investment portfolio that can resist market volatility and provide long-term value.

According to the study, a wide range of factors might impact investment decisions concerning diversification. Economic indicators and the market outlook offer information on the state of the market today and in the future, influencing investment decisions. The amount of risk that a corporation is ready to take on to achieve its investment goals is largely determined by its risk tolerance. For the portfolio to remain flexible, liquidity the ease with which assets may be bought and sold essential. Regulations and investment costs also affect decision-making by affecting the viability and compliance of different investment options. The company's diversification strategy is informed by these elements taken together, which guarantee that it is in line with its financial aims and risk management objectives.

The research highlights the importance of ongoing observation and analysis when determining the efficacy of the diversification approach. The organisation can monitor the performance of different asset classes and their contribution to overall portfolio stability through regular

evaluations of portfolio performance criteria. By identifying areas for enhancement and modification, this study also suggests that the diversification strategy stays in line with the business's aims and risk management objectives and companies can optimise their efforts to diversify and improve long-term financial performance through proactive monitoring and evaluation.

The study also finds that investment diversification is essential to the long-term sustainability and viability of the business. Diversification reduces the chance of significant losses that could imperil the company's capacity to maintain its financial stability by distributing investments over a range of asset types. Furthermore, the diverse portfolio provides increased flexibility during market downturns, allowing the business to navigate risks with greater resilience. Furthermore, diversity promotes a stable financial trajectory over time, which supports the growth and sustainability of the business in volatile market settings. All things considered, investment diversification is essential to maintaining the company's long-term existence and financial stability.

The research highlights various obstacles associated with investing diversification. These difficulties include tackling the potential for underperformance in particular asset classes, making sure that there is no overlap or duplication of assets across asset classes, and handling the complexity involved in keeping a broad portfolio. Effective financial goal-achieving requires striking a careful balance between risk and return. Companies may maximise their diversification strategy and improve their chances of long-term investment success by skilfully managing these hurdles.

The study also emphasises how crucial it was for the organisation to prioritise adaptation, flexibility, and ongoing monitoring to fine-tune its diversification plan. Through constant monitoring of investor mood and market conditions, the corporation can proactively modify its approach to successfully manage uncertainty. By taking a proactive stance, the business may react quickly to shifting market dynamics and new trends, keeping its diversification plan current and in line with its long-term goals. Long-term financial success requires an approach to investment diversification that is both thorough and dynamic, as the study's findings underscore. Through the comprehensive study of the case company and data analysis, this study result shows that investment diversification is important for the sustainability of a financial company.

9 CONCLUSIONS AND RECOMMENDATIONS

The study's conclusions highlight the importance of investment diversity for the sustainability of a financial company. The study also sheds light on the fact that diversification reduces risk in a portfolio by distributing investments among different asset classes, including stocks, bonds, real estate, and alternative investments. Under volatile market situations, this method helps stabilise investment returns, improve overall portfolio stability, and lessen the impact of market swings. Furthermore, diversity helps achieve many goals, such as capital preservation, improved portfolio resilience, and risk-adjusted return optimisation.

Besides this, the research also points out several drawbacks to diversification, including handling complexity, preventing investment overlap or duplication, and the possibility of underperformance in particular asset classes. Financial firms should use a thorough and flexible approach to portfolio management to overcome these obstacles and optimise the advantages of diversification. This entails keeping a close eye on performance indicators for the portfolio, assessing the diversification plan regularly, and making proactive adjustments to the plan in response to shifting investor and market conditions.

Gaining a thorough understanding of economic data, market conditions, and regulatory restrictions is crucial for making well-informed investment decisions and maximising portfolio diversification. Financial organisations can recognise potential opportunities and hazards, modify their investment plans accordingly, and maintain alignment with their long-term objectives by keeping themselves updated about market trends, economic situations, and regulatory changes. The investment diversification strategy of the case company would be guidelines for the financial companies.

It is imperative to establish comprehensive monitoring and evaluation procedures to appraise the efficacy of the diversification approach. Financial organisations can improve the performance of their portfolios over time by fine-tuning their diversification strategy, optimising asset allocation, and finding areas for improvement through regular tracking of performance measures. Financial companies may efficiently negotiate uncertainty and modify their diversification strategy by prioritising flexibility, adaptability, and ongoing monitoring. Companies can proactively modify their investing approach, exploit opportunities, and manage risks by staying

attentive to evolving market dynamics, new trends, and investor views. This helps them maintain resilience in the face of market turbulence.

Proactive portfolio management techniques are necessary to address issues related to diversification, such as handling complexity and preventing investment duplication. Companies may maximise portfolio efficiency, reduce inefficiencies, and streamline their diversification efforts by utilising sophisticated risk management strategies, clear investing criteria, and modern portfolio optimisation technologies. It is essential to educate all relevant parties, investors, employees, and others about the value of investment diversity for long-term financial sustainability. Companies can cultivate a culture of informed decision-making, encourage stakeholder buy-in, and promote active participation in the diversification process by educating stakeholders about the advantages of diversification, the dangers of over-concentration, and the role that diversified portfolios play in mitigating risk. All these actions will ultimately contribute to the long-term success of the company. Financial organisations can ensure long-term sustainability and profitability by implementing these tips, which will strengthen their investment diversification efforts and improve their resilience to market changes.

The process of carrying out this research has been life-changing and has greatly advanced both my career and personal growth. I faced and overcome several difficulties along the way, like refining my research approach and figuring out intricate data analysis methods. My capacity for resilience, adaptation, and problem-solving has improved because of these experiences. Through a detailed analysis of the existing literature and the development of the theoretical framework, I was able to improve my understanding of the nuances and complexities of investment diversification. My critical thinking skills and ability to synthesise information from a range of sources improved because of this approach, which enabled me to identify gaps in the literature and present novel viewpoints.

This study project has not only advanced our understanding of financial diversification but has also helped me grow personally. I now possess the knowledge, abilities, and business acumen needed to fulfil my career goals. Undoubtedly, the knowledge gained and the improvement in myself that this research has brought about will provide a strong basis for my future success and advancement in this sector.

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APPENDIX 1

Interview Questionnaire

EXPLORING THE IMPORTANCE OF INVESTMENT DIVERSIFICATION FOR SUSTAINABILITY OF A FINANCIAL COMPANY

1. Can you explain how your company incorporates investment diversification into its risk management strategy?
2. What are the primary objectives of diversifying your investment portfolio?
3. How does investment diversification help mitigate specific risks, such as market volatility, sector-specific downturns, or geopolitical events?
4. Can you provide examples of how diversification has contributed to stabilizing investment returns during turbulent market conditions?
5. What factors influence your decision-making process when selecting diverse investment options?
6. How do you assess the effectiveness of your diversification strategy in managing overall investment risk?
7. In what ways does investment diversification impact the long-term viability and sustainability of your company?
8. Are there any challenges or limitations associated with implementing and maintaining a diversified investment portfolio?
9. How do you balance the potential benefits of diversification with the need to generate competitive investment returns?
10. Can you share any insights or lessons learned from past experiences with investment diversification?

Thank you for the interview. Your feedback will be valuable for my research work. Ethical guidelines will be strictly followed for data privacy.