BUS-123 Fall 2025 Diversification and Risky Asset Allocation Name: ________________
Instr: F. Paiano Chapter 11 **Study Guide**

diversification

risk

risk *versus* return

variance *and* standard deviation

correlation

correlation coefficient (This is gonna' be on the exam. Please review it.)

positive correlation: correlation coefficient = 1.0 (or 100%)

negative correlation: correlation coefficient = -1.0 (or -100%)

neutral correlation (a.k.a. no correlation): correlation coefficient = 0.0 (or 0%)

asset allocation

rebalancing

dollar cost averaging

mutual funds and diversification

other measures of risk:
alpha: the higher the better, greater than 1.0 is good
beta: 1.0 = same level of risk as the market, higher than 1.0 means riskier than market, less than 1.0 means less riskier than market
r-squared: the closer to 1.0, the more *beta* can be trusted
Sharpe ratio: the higher the better
Treynor ratio: the higher the better

Morningstar risk rating

upside capture ratio

downside capture ratio