

# DIVERSIFICATION A LESSON FROM MARKETS



Diversification often becomes a theoretical concept – spreading investments across sectors, asset classes, or geographies, while investors chase “best performing” labels. However, the real crux of diversification came forth during the pandemic, when uncertainty turned from theory into live experience.

When lockdowns began, two kinds of households emerged

In some homes,  
routines collapsed overnight

In others, disruption was  
real – but manageable

The difference was not income.  
It was structure.

## The Children Who Adapted – and Those Who Struggled

When lockdowns began during the pandemic, parents noticed something surprising.

Two children in the same building reacted very differently to school closures.



One child's life revolved almost entirely around school. Classes stopped. Routine vanished. Social interaction disappeared. Within weeks, frustration and restlessness took over.

Another child had a more varied routine: reading at home, physical exercise, music practice, family discussions, hobbies outside school.

During the lockdown, adaptation was no longer optional – it was mandatory.



How one adapted was largely shaped by the structure already in place.

One child relied on a single pillar. When that pillar collapsed, stability disappeared. The other stood on multiple pillars, so the same disruption was manageable. This ability to absorb shocks through multiple supports is what diversification means in finance.

## The Fall No One Expected

In January 2020, the Nifty 50 was trading near the 12,000 level, while the Sensex hovered around 41,000.

Within weeks, years of gains vanished. Global shutdowns brought travel to a standstill and halted supply chains across industries.

By March 2020, the Nifty had crashed to nearly 7,500, and the Sensex had fallen to around 26,000.

For investors heavily concentrated in the worst-hit sectors, the decline felt catastrophic. Diversified portfolios, however, absorbed the shock far better – primarily because they were built to withstand uncertainty.

## The Recovery That Followed

On the other hand, here is the other half of the story – the one that taught lesson of a lifetime.



The recovery  
was not slow



It was sharp



Almost violent

By 2021, markets had recovered and made significant gains

Nifty crossed 15,000, then  
16,000 and later 18,000+.



Sensex moved  
beyond 60,000!



Technology stocks **surged** due  
to remote work demand



Pharma  
**strengthened**



Gold had already **risen**  
**sharply** during uncertainty

Even sectors that collapsed began **recovering**.

The same market that fell 35-40% in weeks recovered dramatically within months. The dip and the rebound were inseparable.

## How Diversification Made a Difference in Both Phases?

Diversification is not just about surviving the fall. It is about participation through market cycles. An investor concentrated in one badly hit asset class may panic and exit near the bottom. A diversified investor, seeing contained losses, is more likely to stay invested. And discipline is what finally leads to wealth gain.

Consider two investors in January 2020. Both had ₹10 lakh

### Investor A Concentrated Portfolio

He invested ₹10 lakh only in equity  
When lockdown hit and the market  
fell, portfolio nearly lost half its value.

### Investor B Diversified Portfolio

₹5 lakh equity, ₹3 lakh debt funds,  
₹1 lakh gold, ₹1 lakh cash / liquid  
The total portfolio declined by  
nearly one fourth, not half.

Almost half a decade since then all asset classes have performed tremendously.

**Diversification did not steer the pandemic. It simply prepared for uncertainty.**

## Why Diversification Feels Less Exciting?

During booming years, concentrated portfolio feels smarter. Diversified portfolios look slower. But resilience rarely looks impressive in good times.

The children with varied routines didn't seem extraordinary when schools were open. Their strength became visible only when disruption arrived.



The same is true for portfolios. Diversification sacrifices the thrill of extreme gains in exchange for survival during extreme shocks. When you diversify properly, something interesting happens.

You don't just reduce risk, you reduce dependency.

A portfolio stops being a single bet and starts behaving like a system: one part may struggle, but another holds up, so the overall journey stays intact. That is why diversification is not merely "spreading investments." Done well, it becomes a framework for uncertainty.

## The Pandemic's Permanent Reminder

The pandemic exposed a universal truth: Systems that rely on a single pillar are fragile.



Education needed technology



Businesses needed multiple revenue streams



Families needed emergency savings

And Investors Needed Diversified Portfolios.

Because in markets, as in life, disruption and recovery travel together.



Diversification is not about preparing for a specific crisis.



It is about accepting that disruption is normal.

And building a financial life that can adapt just like the children who grew through lockdown, not because life stayed smooth, but because their world had more than one support.

Source: NSE and BSE Index Values

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