Improving equity diversification via industry-wise market segmentation

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Jan.30.2008

Abstract
Over the past decade, traditional equity asset categories have become less effective as a source of diversification benefits. To counter this trend, we advocate a classification scheme based on industry-level equity definitions rather than style and size breakouts. Potential benefits include more stable asset definitions, increased diversification and potential performance enhancement. We evaluate several schemes of equity market segmentation to analyze the benefits of the industry-level classification.