

Chart of the Month

Diversification is known throughout the investment profession as being most-often associated with the late Harry Markowitz, the founder of Modern Portfolio Theory, who was quoted saying: “Diversification is the only free lunch in investing.” Conceptually, the idea is that investors can combine assets that do not move perfectly together as a means of lowering risk, while still maintaining a constant level of expected return. In Markowitz’s analogy to “free lunch,” it is referring to the lack of trade-off required between risk and reward such that you get “less risk” without a “cost” of lower returns.

Our definition at 6 Meridian is a little more straightforward in that we like to suggest that if you do not have an asset in your portfolio that *is not* working or that you *are not* upset with at any given time, then your portfolio likely is not truly diversified.

Diversification can stretch a lot of different ways. It can be diversifying across the asset classes (Stocks vs. Bonds), geographies (US vs. Non-US), sectors (Technology vs. Healthcare), or a variety of offshoots from those. We discussed this to some extent as recently as our **July 2025 Viewpoint**.

Our table for this month looks a little more granularly into what we thought was an interesting nuance in an industry trend and subsequent performance, focusing on Chinese equities. Investors became disinterested in Chinese equities throughout 2023, and rightfully so, because it was clearly the global laggard.

Looking at a year-end statement that year might have led some to think (and act upon) that it simply is not worth owning Chinese equities because they don’t work, just look at everything else! This was happening, and you can look at growing AUM in EM (Ex-China) funds vs. shrinking AUM in strictly China funds as evidence. Fast-forward to today, and that would likely be reviewed as a disappointing move as Chinese equities have now outperformed everything else since.

Diversification in Action: Uneven Asset Performance

Style	ETF	Broad Market	Exposure	2023 Return	Since then...
Broad Exposure	SPY	S&P 500	US Large Cap	26.1%	22.8%
	IJR	S&P 600	US Small Cap	16.0%	7.3%
	EFA	MSCI EAFE	Developed (Non-US)	18.1%	16.3%
	EEM	MSCI EM	Emerging Markets	8.9%	19.5%
	MCHI	MSCI China	China	-11.1%	33.9%
EMXC	MSCI EM (Ex-China)	EM (Excluding China)	18.7%	14.5%	
Sector Exposure	QQQ	Nasdaq 100	US Technology	54.8%	25.2%
	KWEB	CSI China Internet	China Technology	-9.9%	32.1%

Source: Bloomberg. Data as of 9/30/2025.

Returns in columns are annualized. “Since then...” represents 12/31/2023 - 9/30/2025

The following were used: S&P 500 (SPY ETF); S&P 600 (IJR); MSCI EAFE (EFA); MSCI EM (EEM); MSCI China (MCHI); MSCI EM Ex-China (EMXC); Nasdaq 100 (QQQ); CSI China Internet (KWEB)

If you go back to our definition of diversification, this situation fits nicely. Sure, one line item in the portfolio looked miserable for a year, but that should be expected, especially in shorter time horizons. By being aware of that diversification and how it works, investors can be set up for a more stabilized path to achieving their objectives.



2025 Tax Reference Guide

What you need to know to prepare for tax planning

The One Big Beautiful Bill Act (OBBBA) is transformative legislation that introduced a wide range of changes that impact tax planning for individuals, families, and businesses. Use our Tax Reference Guide to review the updates that cover expanded deductions, increased credits, revised contributions limits, and adjustments to estate and business tax provisions. Visit 6meridian.com/2025TaxGuide for details.

	Source: Bloomberg 2025	September	YTD	2024	ETFs/Benchmarks
Stocks	United States	3.6%	14.7%	24.9%	SPDR S&P 500 ETF (SPY)
	Intl Developed	2.4%	25.9%	3.4%	iShares MSCI EAFE ETF (EFA)
	Emerging Markets	6.9%	27.8%	6.9%	iShares MSCI Emerging Markets ETF (EEM)
Bonds	US Investment Grade	1.1%	6.1%	1.4%	iShares Core U.S. Aggregate Bond ETF (AGG)
	US Municipals	2.2%	2.1%	1.1%	iShares National Muni Bond ETF (MUB)
	Intl Investment Grade	0.5%	2.4%	5.0%	iShares Coare Int’l Aggregate Bond ETF (IAGG)
	Global High Yield	0.8%	13.3%	3.0%	iShares Global HY Corp Bond UCITS ETF (HYLD)
	Emerging Markets \$	1.7%	10.2%	6.1%	iShares JP Morgan USD EM Bond ETF (EMB)
Other	Commodities	0.5%	6.0%	5.9%	iShares GSCI Commodity Dynamic Roll ETF (COMT)
	Gold	11.9%	47.0%	27.2%	Gold New York Spot (\$/oz)
	Oil	-2.6%	-13.0%	0.1%	Crude Oil WTI/Global Spot NYMEX

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