

## **Abstract**

In this study we look at the effect of country and industry diversification in stock and bond portfolios. We observe that, in both relative and absolute terms, international diversification reduces stock portfolio risk to a greater degree than bond portfolio risk. Both geographical and industrial diversification cause a significant reduction in the volatility of the spread component of bond portfolio returns, while their impact on the interest rate risk component is much weaker. Maturity, seniority and rating diversification effects are also investigated.