

The “True Diversification” Correlation Matrix

Are You Actually Diversified, or Just Cluttered?

Created by SafeSimpleSound Financial Planning

Your S3 Correlation Guide

What You'll Discover:

- **Safe:** Discover if your assets will all crash at the same time (Correlation Risk).
 - **Simple:** A “Traffic Light” grid to instantly spot redundancies in your portfolio.
 - **Sound:** The “Beta Buddy System” for pairing assets that actually support each other.
 - **Constitutional Advantage:** We move beyond “buying more things” to “buying different things.”
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Part 1: The Traffic Light Correlation Grid

Instructions: Use this simple heuristic to audit your asset pairs. *Correlation 1.0 = They move identically. Correlation 0.0 = No relationship. Correlation -1.0 = Opposites.*

Zone	Correlation Score	What It Means (Simple)	Action Step
RED LIGHT	0.8 to 1.0	Duplicates. These are the same “employee” wearing different	Consolidate. You don't need both. You have concentration risk.

Zone	Correlation Score	What It Means (Simple)	Action Step
		shirts. (e.g., S&P 500 & Tech Fund).	
YELLOW LIGHT	0.4 to 0.7	Cousins. They often move together but have different drivers. (e.g., US Stocks & Intl Stocks).	Monitor. Useful for currency diversification, but don't count on them to save you in a crash.
GREEN LIGHT	-0.5 to 0.3	Diversifiers. These march to a different beat. (e.g., Stocks & Treasuries/ Managed Futures).	Accumulate. These are the structural beams of a SafeSimpleSound portfolio.

Part 2: The Beta Buddy System

The Concept: Every high-volatility "Offense" player needs a low-volatility "Defense" buddy to stabilize the plan.

Your Portfolio Audit

List your top 3 "Growth" assets and identify their "Buddy."

- Offense Asset: _____ (e.g., Tech ETF)
 - Its Buddy: _____ (Is there a specific bond, cash, or alternative uncorrelated asset?)
 - S3 Check: If the buddy is just "another stock fund," you have no defense.
- Offense Asset: _____
 - Its Buddy: _____

3. Offense Asset: _____
◦ Its Buddy: _____

Part 3: The Diworsification Detector

Are you “Diworsifying”? (Adding complexity without reducing risk)

- The “Mutual Fund Soup” Check: Do I own more than 5 funds that all own Apple and Microsoft? (If YES -> Diworsification).
- The “Collector” Fallacy: Do I buy a new fund just because it did well last year? (If YES -> Diworsification).
- The “Zero Sum” Test: When stocks are down, is *anything* in my portfolio Green? (If NO -> You are not diversified, you are just long the market).

Insights Summary

Key S3 Differentiator: True diversification is mathematical, not just a long list of ticker symbols.

Educational Generosity Promise: Use this matrix to audit your own account. If you find too many “Red Lights,” you know what to fix.

Your Next Steps

Immediate Action (Next 7 days): Identify one “Red Light” pair in your portfolio and simplify.

Professional Support: Request our Correlation Stress Test. We run your portfolio through institutional software to generate your precise matrix.

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