Cross-Asset Correlation

PRO PRACTICE WORKSHEET

Work through these by hand or with a spreadsheet. There's no wrong answer, the goal is just practice.

Section 1 - Compare Portfolio Volatility Across Regimes

A 70/30 stock/bond portfolio has stock volatility of 18% and bond volatility of 6%. Using the two-asset formula, estimate portfolio volatility at a calm correlation of -0.25 and a crisis correlation of +0.5.

Section 2 - Identify a Genuine Diversifier

List an asset you believe has historically held up as a diversifier during stress, and explain why you think it behaves differently from stocks in a crisis.

Section 3 - Spot a Regime Shift Signal

If you noticed correlations across several asset classes all rising sharply over a short period, what might that suggest is happening in the market?

Section 4 - Audit Your Own Diversification Assumptions

Think of a hypothetical portfolio. What correlation assumptions might it be relying on that could break down in a genuine crisis?

Section 5 - Reflection

In your own words, explain why 'diversified on paper' and 'diversified in a crisis' can be two very different things.