

How Many Stocks Make a Well Diversified Portfolio: Evidence from Dhaka Stock Exchange (DSE)

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Abstract: Advantages of diversification attracted investors ever since the inception of this concept. However the problem is in the determination of the exact size of well diversified portfolio. In literature, there are ad hoc as well as empirical suggestions but those studies are not done on Bangladeshi data. The current paper adds in the literature with a theoretical derivation and empirical estimation of the size of well diversified portfolio. We have found that theoretical derivation does not point us to a particular portfolio size as well diversified. It does not even conclusively confirm the existence of such portfolio. For empirical estimation, we have included data of 226 actively traded DSE listed stocks from 1997 to 2008. Forming equal weighted portfolio with randomly picked shares we have found that advantages of diversification significantly drop once we include 50 to 60 shares in our portfolio.

Field of research: Financial Economics

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