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Evaluating Diversification Strategies Direct Property Investment Portfolios

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Executive Summary. This paper evaluates diversification strategies adopted for direct property investments in the Nigerian property market. Annual holding returns were calculated from the data on rental transactions and capital gains over the 1998-2003 period. Under the assumption that investments are held long-term, the constant correlation model or excess return to standard deviation representation of the covariance structure of assets' returns, the findings revealed that property portfolios using geographic naïve diversification strategies underperformed most of the efficient portfolios constructed using constant correlation model. Most of the performance differences were found to be statistically significant at the 0.05 level. The results suggest that an efficient portfolio may not be more efficient than a naïvely diversified portfolio in all cases.

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