

## Optimal Diversification and Bank Value Maximization

**Authors :** Chien-Chih Lin

**Abstract :** This study argues that the optimal diversifications for the maximization of bank value are asymmetrical; they depend on the business cycle. During times of expansion, systematic risks are relatively low, and hence there is only a slight effect from raising them with a diversified portfolio. Consequently, the benefit of reducing individual risks dominates any loss from raising systematic risks, leading to a higher value for a bank by holding a diversified portfolio of assets. On the contrary, in times of recession, systematic risks are relatively high. It is more likely that the loss from raising systematic risks surpasses the benefit of reducing individual risks from portfolio diversification. Consequently, more diversification leads to lower bank values. Finally, some empirical evidence from the banks in Taiwan is provided.

**Keywords :** diversification, default probability, systemic risk, banking, business cycle

**Conference Title :** ICSRD 2020 : International Conference on Scientific Research and Development

**Conference Location :** Chicago, United States

**Conference Dates :** December 12-13, 2020