

Portfolio Diversification in the Saudi Stock Market a Theoretical Application of Modern Portfolio Theory

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Abstract

Portfolio diversification remains one of the central principles of investment management. This supporting paper provides a theoretical discussion of how Modern Portfolio Theory (MPT) can be applied to portfolio construction in the Saudi stock market. The paper explains the logic of risk-return trade-off, correlation, sector allocation, and the efficient frontier, and links these concepts to selected major sectors in Tadawul, including energy, banking, telecommunications, technology, and insurance. Rather than presenting new empirical estimates, the study is designed as a conceptual foundation for a conference poster and future empirical research. The discussion suggests that diversification across sectors with different business cycles and risk exposures can improve portfolio resilience and support more informed investment decisions. The paper also identifies practical implications for individual investors, financial analysts, and portfolio managers, while acknowledging the need for future testing using historical stock-price data, return calculations, volatility measures, and portfolio optimization techniques.

Keywords: Portfolio Diversification; Modern Portfolio Theory; Saudi Stock Market; Tadawul; Risk Management; Asset Allocation