Sector concentration, and portfolio heat

> **PORTFOLIO HEAT**
>
> The sum of open risk across all positions - what the account loses if every stop is hit - read alongside its concentration by sector. Equities is the one asset class where diversification genuinely works, and the one where five carefully chosen names can still be a single sector bet wearing five tickers.

The commodities track counted clusters because its diversification was fake. Equities earns the honest version of the lesson: real diversification exists here - and the failure mode is thinking you have it when you have a sector.

Both halves of the truth

Diversification is real: names from genuinely different sectors carry different businesses, different customers, different fates - a spread of them meaningfully dampens single-name risk, which module 1's decomposition predicts and the data confirms.Sectors are clusters with plumbing: five banks are one interest-rate bet; five chip names are one cycle - module 1's sector layer moving them together, exactly as the commodity clusters' shared barrel did.The market layer floors everything: in a genuine crash, correlations converge and the market layer swamps the rest - diversification dampens ordinary days and thins out in the worst ones, and honest planning uses the crash number.

Heat, and the two ledgers

Portfolio heat is the platform's standing sum - every position's distance-to-stop risk, added up - and equities reads it twice: total heat against the account's tolerance, and heat by sector against the cluster budgets. A book showing eight positions and 8% total heat reads prudent; the same book showing 6% of that heat in one sector reads as what it is - a leveraged sector view with decorations. Module 2's ratio charts tell you which sector each name actually answers to; the plan assigns each sector its ceiling; and the earnings season adds the equity twist: heat spikes when several held names report in the same week, which the calendar shows in advance.

The cap family completed

The equity risk plan now carries three ceilings: per-name (lesson 6, the halving), per-sector (this lesson, the cluster), and total heat (the account's survivable worst week). Each answers a different catastrophe, none substitutes for another, and all three are checked at entry - the two-constraint rule of lesson 2, grown to its full size. What remains is the wrapper's own machinery, next lesson, and the page that holds it all, last.

Check your understanding

1. How does equity diversification differ from the commodity clusters lesson?

a. It does not - the lessons are identical

b. Equity diversification across genuine sectors actually works - and the discipline is spotting when five names are one sector bet, not pretending spreading never helps

c. Equities need no diversification because of stops

Answer: b. Commodities taught cluster-counting because its diversification was fake. Equities has the real thing plus the same trap - both halves are the honest lesson.

2. A book shows 8% total heat across eight names, 6% of it in one sector. What is the honest description?

a. A well-diversified book at prudent heat

b. A leveraged sector view with decorations - the sector ledger, not the position count, describes the actual bet

c. An index-tracking portfolio

Answer: b. Heat reads twice: total, and by cluster. Position count is the least informative number a book produces - the sector ledger is where the real bet shows.