**Investment portfolio**

An investment portfolio is a collection of assets and can include investments like stocks, bonds, mutual funds and exchange-traded funds. An investment portfolio is more of a concept than a physical space, especially in the age of digital investing, but it can be helpful to think of all your assets under one metaphorical roof.

**Investment portfolios and risk tolerance**

One of the most important things to consider when creating a portfolio is your personal risk tolerance. Your risk tolerance is your ability to accept investment losses in exchange for the possibility of earning higher investment returns.

Your risk tolerance is tied not only to how much time you have before your financial goal such as retirement, but also to how you mentally handle watching the market rise and fall. If your goal is many years away, you have more time to ride out those highs and lows, which will let you take advantage of the market’s general upward progression. Use our calculator below to help determine your risk tolerance before you start building your investment portfolio.

**How to build an investment portfolio**

1. Decide how much help you want

If building an investment portfolio from scratch sounds like a chore, you can still invest and manage your money without taking the DIY route. Investment advisors are an inexpensive alternative. They take your risk tolerance and overall goals into account and build and manage an investment portfolio for you.

2. Choose an account that works toward your goals

To build an investment portfolio, you’ll need an investment account.

There are several different [types of investment accounts](https://www.nerdwallet.com/blog/investing/types-investment-accounts-know/). Some are meant for retirement and offer tax advantages for the money you invest. Regular taxable brokerage accounts are better for nonretirement goals, like a down payment on a house. If you need money you’re planning on investing within the next five years, it may be better suited to a [high-yield savings account](https://www.nerdwallet.com/best/banking/high-yield-online-savings-accounts). Consider what exactly it is you're investing for before you choose an account.

3. Choose your investments based on your risk tolerance

After opening an investment account, you’ll need to fill your [portfolio](https://www.nerdwallet.com/article/investing/portfolio) with the actual assets you want to invest in. Here are some common types of investments.

**Stocks**

Stocks are a tiny slice of ownership in a company. Investors buy stocks that they believe will go up in value over time. The risk, of course, is that the stock might not go up at all, or that it might even lose value. To help mitigate that risk, many investors invest in stocks through funds — such as mutual funds — that hold a collection of stocks from a wide variety of companies. If you do opt for individual stocks, it’s usually wise to allocate only 5% to 10% of your portfolio to them.

**Bonds**

Bonds are loans to companies or governments that get paid back over time with interest. Bonds are considered to be safer investments than stocks, but they generally have lower returns. Since you know how much you’ll receive in interest when you invest in bonds, they’re referred to as fixed-income investments. This fixed rate of return for bonds can balance out the riskier investments, such as stocks, within an investor’s portfolio.

**Mutual funds**

There are a few different kinds of mutual funds you can invest in, but their general advantage over buying individual stocks is that they allow you to add instant diversification to your portfolio. Mutual funds allow you to invest in a basket of securities, made up of investments such as stocks or bonds, all at once. Mutual funds do have some degree of risk, but they are generally less risky than individual stocks. Some mutual funds are actively managed, but those tend to have higher fees and they don’t often deliver better returns than passively managed funds, which are commonly known as index funds.

If you want your investments to make a difference outside your investment portfolio as well, you can consider impact investing. [Impact investing](https://www.nerdwallet.com/article/investing/impact-investing) is an investment style where you choose investments based on your values. For example, some environmental funds only include companies with low carbon emissions. Others include companies with more women in leadership positions.

While you may think of other things as investments (your home, cars or art, for example), those typically aren’t considered part of an investment portfolio.

4. Determine the best asset allocation for you

So you know you want to invest in mostly funds, some bonds and a few individual stocks, but how do you decide exactly how much of each asset class you need? The way you split up your portfolio among different types of assets is called your *asset allocation*, and it’s highly dependent on your risk tolerance.

When you’re creating a portfolio from scratch, it can be helpful to look at model portfolios to give you a framework for how you might want to allocate your own assets. Take a look at the examples below to get a sense of how aggressive, moderate and conservative portfolios can be constructed.

A model portfolio doesn’t necessarily make it the right portfolio for you. Carefully consider your risk tolerance when deciding on how you want to allocate your assets.

5. Rebalance your investment portfolio as needed

Over time, your chosen asset allocation may get out of whack. If one of your stocks rises in value, it may disrupt the proportions of your portfolio. Rebalancing is how you restore your investment portfolio to its original makeup. Some investments can even rebalance themselves, such as target-date funds, a type of mutual fund that automatically rebalances over time.

Some advisors recommend rebalancing at set intervals, such as every six or 12 months, or when the allocation of one of your asset classes (such as stocks) shifts by more than a predetermined percentage, you may want to sell some of your stocks or invest in other asset classes until your stock allocation is back at your predetermined target percentage.