Can You Make Money with an Investment Portfolio?

Building a portfolio isn't just for people in suits with fancy finance degrees hanging on the wall. It's something you can put together with a little bit of skill and knowledge so that you can generate real returns.

Content

What is an Investment Portfolio?

Some people are afraid to ask about the basics, but that's how learning (and success) happen! So what is an investment portfolio?

A good portfolio investments definition is, to put it simply, a collection of your investments.

These could be stocks, bonds, exchange-traded funds, mutual funds, IRAs, government-issued bonds, or anything into which you've put your money with the expectation of getting more money back.

When you refer to all these different investments as one complete package, that's your investment portfolio.

What About Risk?

When you're building an investment portfolio from scratch, you have to determine what level of risk you're willing to accept. There are two principles to live by:

1. The more risk you're ready to take, the more money you could make (or lose)
2. The less risk you're willing to take, the more stable your money will be

If your goal is to make lots of money quickly, you're going to have to take more risks. A really good rate of return on a 401(k) or IRA is 12%.

The problem is that they're not liquid. In other words, if you need money right now, it's a pain to get it out.

If you want 50% returns, you need maximum liquidity, and you're going to have to be hands-on, buying and selling stocks and assets regularly to increase your profits.

If, on the other hand, you want long-term stability, you'll have to accept low rates of return, somewhere between 6 and 12%.

These investments will be low risk, such as stocks in long-established companies or government bonds that take decades to mature.

How to Build an Investment Portfolio for Beginners

Let's say that, in terms of risk, you're somewhere in the middle. You want returns you can see immediately, but ones that don't swing so wildly that they need your attention moment by moment.

As for how to build a portfolio to meet your expectations, we need to dig deeper into the different types of investments you can make.

Playing the Stock Market

Crafting a trading portfolio yourself — as opposed to outsourcing to an investment firm or another expert — isn't as scary as it sounds, provided you manage your expectations going in.

Stocks let you buy a small portion of a company. You ride along with the company through all peaks and valleys.

Historically, the stock market has always made money, but picking stocks to suit your specific needs is what matters. The answer as to how to create a stock portfolio depends entirely on your short- and long-term goals.

Volatile upstarts can make money quickly and lose it overnight. More established companies will probably experience fluctuations much more slowly, which means they are often a safer bet.

Day traders will have different goals than the "set it and forget it" crowd, of course.

As for how to invest, you can either go through a stockbroker or buy stocks directly through specific apps.

How to build a stock portfolio that works for you is something you should consult experts on, though. The number of stories about people losing their life's savings after a hot stock tip turned out to be cold should make you wary!

Savings Bonds

On the other side of the roller coaster that the stock market can be, you have bonds, which are far more stable.

Think of them like loans, except instead of someone loaning you money, you're loaning money out, whether it's to a company or a nation's government. Bonds appreciate slowly but surely, usually at fixed time intervals of years or decades.

You can invest in individual bonds, which you can purchase directly from the government, or company bonds, which you can get from a broker.

Bond funds let you buy pieces of many bonds to create, in essence, a portfolio of bonds. It's kind of like a stock portfolio that's much more stable and "hands-off."

In the Middle: Mutual Funds

The name of the game for mutual funds is diversification. They carry more risk than bonds but significantly less risk than purchasing individual stocks. As such, mutual funds' rates of return are somewhere between stocks and bonds.

Usually, this is because they're made up of both stocks and bonds. Your money is spread out among many different investments, so no one stock dip or company collapse can affect your bottom line too much.

With regards to mutual funds, you can go in two directions:

1. Actively managed funds, which a fund manager controls
2. Index funds and ETFs, which are more "set it and forget it"

Index funds and ETFs follow market indices and don't require constant management.

ETFs can be traded like stocks and are backed by commodities and other speculative investments, while index funds rely on the price of a certain collection of stocks.

Physical Goods

Without discussing real-world, tangible things you can buy that will appreciate value, no list of investments would be complete. Of course, these can also be risky.

Baseball cards, comic books, and classic cars fluctuate on the whim of popular culture. Yes, that 1971 Hemi Cuda convertible sold for $4.1 million. But your 1971 AMC Hornet probably won't.

How to Build a Portfolio By Age

The breakdown of risk acceptance is directly related to age. Putting your money in several investment sources is always a good idea, but exactly how much money goes might look different, depending on how old you are and what your future goals are:

- 30 years old: Up to 80% of your investments in stocks, 20% in bonds
- 60 years old: 50% stocks, 50% bonds
- 70 years old: 30% stocks, 70% bonds
- 120 years old: 0% stocks (and call the Guinness Book of World Records, too)

The best way to figure out your split is to take your age and subtract it from 110 to figure out how much money should be tied up in stocks.

Some financial planners even suggest upping that number to 120 based on increased life expectancies and the potential for stocks to grow tremendously early in your life.

Investing Portfolio Examples

How to build an investment portfolio that takes you toward your goals will depend on many of the factors that we’ve already talked about, from your age to the amount of risk you’re willing to take.

But to break it down into some useful examples, here are three types of strategies you can employ:

Aggressive

Aggressive strategies are up to 90% stocks and 10% bonds. They are highly liquid, offer lots of control and are often best for someone younger.

Moderate

With a moderate approach, you’ll be closer to a 50/50 split of stocks and bonds, perhaps leaning towards stocks. If you’re middle-aged, this is more your speed. You still have large earning potential from stocks but can rest easy in the safety net of bonds.

Conservative

For the older or more risk-averse investors, up to three-quarters of your portfolio should be bonds or other highly stable investments. Only a quarter of your assets should be stocks. You can also invest a small amount in precious metals.

Change as Needed

Your financial needs today won’t necessarily be your financial needs tomorrow. Or next year. Or next decade. You need to reassess your goals periodically.

Are you sick of renting and want to buy a house? Did you have triplets and need to purchase a minivan to haul the family? Is your third yacht finally out of the planning phase?

Financial burdens come and go, and you’ll need to rebalance your investment portfolio as you experience various life events.

Depending on your current and projected income, you can determine how much gets pumped into your investments and what the split of your assets should look like.

Advisors say that you should look at your breakdown of investments every six to twelve months and determine whether any changes need to be made. Some investment managers or funds rebalance for you over time. Robo-advisors do this, for example.

How to Create an Investment Portfolio with Our Help

Ultimately, creating a good portfolio requires both research and experience. While the rules we’ve outlined in this article are fairly simple, the markets in which you must apply them can be incredibly complicated.

Building a portfolio yourself can be very empowering, but it’s a lot more likely to help you gain financial independence if you take advantage of some professional assistance while you’re doing it.

A seasoned team of investment gurus can help you identify the subtle nuances that turn a good portfolio into a great one. By identifying undervalued stock opportunities and other market niches, they can make your investment dollar stretch further.

By tapping into a pool of established wisdom, you can ensure that you’re making the best choices for your future security. Perfect portfolio balancing becomes less of a chore and more of a fun opportunity for growth with expert assistance.

Gorilla Trades has been teaching people how to build an investment portfolio for over 22 years. We can show you how to save for the future and take control of your financial destiny. Sign up for a free trial now and start earning real profits today!