What is a portfolio?

A portfolio is a collection of assets with different risks and potential payoffs.

Think of a portfolio as a bucket where you hold different investments.

For example a portfolio could hold $2000 in a stock mutual fund, $1500 in a bond mutual fund, $1000 in Microsoft stock and $500 in a certificate of deposit at a bank. So the portfolio is worth $5000.

Each of these investments has different risks and expected returns.

In the STARS program, you will have the opportunity to build your own portfolio of stocks based on your own research and strategy.

Diversification

Diversification means “don’t put all your eggs in one basket”. An investor should spread out the risk of the portfolio’s securities. In a portfolio you should hold different companies, different types of assets, and maybe even investments from different countries, rather than putting all your capital in one or two securities.

Why diversify? If you choose an investment that doesn’t work out, it won’t sink your portfolio.

How many stocks make up a diversified portfolio?

Research has shown that 10 to 20 stocks allow an investor to be properly diversified. Or you can own one mutual fund that gets you instant diversification since the fund owns dozens of stocks and securities. However, the more stocks you own in a portfolio, the closer you will get to performing like the overall market. So if you want to own hundreds of stocks in one account, you might as well own an index mutual fund.

How do you build a diversified portfolio?

It is up to you to choose different companies in different industries. For example you might select a company in the energy industry, another from the tech industry, and another from the restaurant industry.