



Mitchell Goldberg - Diversification is very important when building individual stock portfolios

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I use this model as a basis to build individual stock portfolios.

It is almost too obvious to say that when it comes to investing, diversification is very important. While it doesn't guarantee against investment losses, it is a very useful tool to reduce investment risk. It is simply imprudent for most investors to put all their eggs in one basket...enough said.

I use the number 10 as the amount of different stocks I would use. This number 10 reflects the number of classifications within the General Industry Classification Standard (GICS) that Standard & Poor's uses to establish a global standard for categorizing companies into specific sectors. This is the standard by which professionals in financial services consistently define global sectors and industries (The McGraw Hill Companies, Standard and Poor's).

So, by selecting one stock per GICS, you would have a 10 stock portfolio that would provide you with diversification among the wide swaths of the economy. Plus, this strategy would prevent you from having too much concentration in one industry such as having too many bank or tech stocks. Many investors may have had 10 individual stocks, but if 5 of them are bank stocks, it is probably fair to say that in this example, this investor would be very far underwater.

The 10 GICS are:

- 1) Consumer Discretionary,
- 2) Consumer Staples,
- 3) Energy,
- 4) Financials,
- 5) Healthcare,
- 6) Industrials,
- 7) Information Technology,
- 8) Materials,
- 9) Telecommunication Services, and
- 10) Utilities.

Giving equal weight to each one of the above sectors may potentially give you a combination of cyclical and defensive companies, in addition to dividend yield. Another play on this theme could be to pick two from each classification, one large cap and one small cap, as one way to go. You'd have 20 stocks in this example, but you'd still have the consistent strategy to hew to.

In fact, there are thousands of individual stocks to choose from, but if you are looking for a strategy, using the GICS as both a starting point and a place to revert back to has been a very useful tool to me and others in my industry.

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