



## Build a Diversified Portfolio With Just 3 Stocks

### Description

Those fortunate enough to attend the **Berkshire Hathaway** (NYSE: BRK.A)(NYSE: BRK.B) annual meeting in Omaha Nebraska on Saturday were able to hear Warren Buffett and Charlie Munger speak about the company, the economy, and their investing principles. Just like every other year, there was a lot to take away.

One of the most important lessons Mr. Buffett can teach us relates to diversification. Specifically, you don't need to hold that many names to minimize risk. To illustrate, Berkshire's stock portfolio now stands at about \$118 billion. Yet it's still more concentrated than most people's portfolios, with over half the money invested in just four names: **Wells Fargo**, **IBM**, **American Express**, and **Coca-Cola**.

So why do most investors spread themselves so thin in an attempt to achieve diversification? The fact is it's not necessary; you can create a diversified portfolio holding very few names. Even creating a three stock portfolio, holding just the names below, takes a lot of the ups and downs out of investing.

#### 1. Constellation Software

**Constellation Software** ([TSX: CSU](#)) is a \$5.5 billion software company that's essentially made up of a series of small acquisitions – Constellation made 30 acquisitions last year alone. As a result, the company is very diversified, serving over 30,000 customers in 60 different industries in 30 different companies.

Constellation Software has one of the best track records in Canada. So just from owning this one stock, you would already have quite a bit of diversification.

#### 2. Canadian National Rail

**Canadian National Rail's** ([TSX: CNR](#))([NYSE: CNI](#)) diversification stems from two sources: its track network and its business mix.

Canadian National Rail's track network is the best in the North American railroad industry. It stretches across all of Canada and also down through the United States to the Gulf coast. In fact Canadian

National Rail is the only railroad with access to all three coasts in North America. This is particularly useful for products like crude oil, where end-market prices can vary so much by location. Canadian National Rail is the only railway that can always deliver the product to where it gets the highest price.

Canadian National Rail also has a very diversified business mix; freight revenue is split into seven different product categories, none of which accounted for more than 23% of total revenue in 2013. And each product category serves several different industries.

### 3. Power Corporation of Canada

**Power Corporation of Canada** ([TSX: POW](#)) is arguably Canada's most diversified financial services company, and also one of Canada's greatest success stories.

Through various subsidiaries, Power Corp controls **Great-West Lifeco**, Investors Group, Mackenzie Investments, a European holding company, and other international investments. Again, much like Constellation Software, Power Corporation itself is in effect a diversified portfolio.

### Lessons from the Oracle of Omaha

Berkshire Hathaway always gives us a great reminder that it is better to hold a small number of great companies than a large number of average ones. And the three companies shown above are a perfect example of this. If an investor just makes a three-stock portfolio consisting of these companies, and invests for the long term, then he should have no problem sleeping at night.

### CATEGORY

1. Investing

### TICKERS GLOBAL

1. NYSE:BRK.B (Berkshire Hathaway Inc.)
2. NYSE:BRKA (Berkshire Hathaway Inc.)
3. NYSE:CNI (Canadian National Railway Company)
4. TSX:CNR (Canadian National Railway Company)
5. TSX:CSU (Constellation Software Inc.)
6. TSX:POW (Power Corporation of Canada)

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