# 3 Reasons to Avoid Buying Many Stocks in Order to Diversify

## Description

Diversification is a good way to minimize your risk, but buying many stocks to achieve this is not ideal, and your returns could suffer as a result. Before you buy stocks across many different industries, there are three reasons why you should reconsider that approach.



**Index funds can achieve better results than multiple stocks**

The old adage of needing to buy many stocks across different industries to diversify might have made sense decades ago, when ETFs and index funds weren't around, but that is not the case today. The **iShares S&P/TSX 60 Index Fund** (TSX:XIU) does a very good job of mirroring the TSX and producing returns that are very close to the market. In the past 10 years, the index fund has managed a return of 11.6% compared to 10.8% for the TSX, while in the past year its 4.9% rise was also higher than the 4% return the market produced.

With an index fund doing such a good job of mirroring the TSX's results and even slightly beating it, there's really no reason to bother with loading up on stocks across different industries just to try and achieve the same results. Putting money in an index fund also takes out the guesswork involved in having to determine which stocks you should purchase. If you tried to account for all industries and sectors, you could end up with dozens of stocks.

**Commission fees will be significant when buying many stocks**

Most big brokerages charge you about $10 to buy a share and $10 to sell it, although there are some cases where you can achieve lower costs than that. However, assuming that your total commission is $20 to buy and sell a stock, unless you have significant assets where you can afford to put a large amount of money into each stock, then commission fees will be taking up a significant portion of your investment.

I normally avoid trading for less than $2,500, because then my commission cost will represent lessthan 1% of my investment, meaning a return of just 1% will already yield me a profitable result. Even ifyou just invest $1,000, then a $20 commission means that you need to achieve returns of over 2%before making a profit, and that would turn a strong return of 10% down to only 8%.

**The TSX is not an index worth mirroring**

The biggest reason for not wanting to mirror the index is that the TSX has had a lousy performance. In 2017, the TSX has seen losses of over 1% year-to-date and in the past 12 months, it has only achieved 4% growth. Certainly, if you are a very risk-averse investor, you may be willing to settle for these results, since a 4% return in one year is still better than putting your money into a bank.

However, if you just put your funds into some blue-chip stocks, like **BCE Inc.** (TSX:BCE)(NYSE:BCE) or **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD), you would achieve much stronger results without taking on significant risks. Both TD and BCE are strong brands in Canada, and there is little reason to expect that either stock will have a terrible year, and even if that were the case, it's likely the TSX would have an even worse year.

**CATEGORY**

1. Bank Stocks
2. Dividend Stocks
3. Investing



**TICKERS GLOBAL**

1. NYSE:BCE (BCE Inc.)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:BCE (BCE Inc.)
4. TSX:TD (The Toronto-Dominion Bank)
5. TSX:XIU (iShares S&P/TSX 60 Index ETF)

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