Now Is a Good Time to Review Your Stock Portfolio

Description

At least once a year, investors should review their portfolios to see if rebalancing is needed. The start of a new year is as good a time as any to perform this exercise after a nice break from the winter holidays.

Is your portfolio overly concentrated in a sector, industry, or stock? Do you own the businesses you want to own? Are you earning the investment income you want? Is your portfolio's income growing at a rate that satisfies your needs? Are your holdings doing what you expect them to in terms of income and growth? These are some questions you might ask yourself.

Diversification

Everyone's risk tolerance is different. Think about how much you're willing to devote your portfolio to, say, energy stocks. Some aggressive investors who believe energy prices will go higher may invest a big portion of their portfolio, say, 25% in oil and gas stocks, such as **Spartan Energy Corp.** (TSX:SPE) and **Tourmaline Oil Corp.** (TSX:TOU).

However, conservative investors may not invest in them at all. Instead, they feel much more comfortable having 25% of their portfolios in the big Canadian banks, including **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS).

What about each individual stock? An investor may be willing to own 5% in a big Canadian bank, but only 1% in Tourmaline. In summary, the riskier a stock, the smaller the position should be (you may even choose not to own it in the first place).

Income

How much income do you want your portfolio to generate? This might be an amount that initially pays for your cell phone bill of $60 a month. Then you might continue to invest to replace more of your recurring bills until the generated passive income pays for them all.

If your portfolio income isn't at your desired level, determine if you need to focus more on income-generating holdings. What about the growth of that income? Is it at your desired pace? You'd want the income to grow at least at the pace of inflation. The long-term rate of inflation is 3-4%, but it has been lower recently.

You'll find that stocks in the energy infrastructure space, including the North American leader, **Enbridge Inc.** (TSX:ENB)(NYSE:ENB), are better valued than the market. Specifically, Enbridge offers a competitive yield of ~5.5% and aims to grow its dividend by 10% through 2020. Even if it were to cut that dividend-growth rate by half, it'd still greatly outpace the rate of inflation.

Investor takeaway

You should have a reason to hold each stock. You might have bought a stock for income, growth, or a mix of both. If a company isn't giving the income or growth you're looking for, you might have to replace it with another stock.

However, no company does great every year. Occasionally, even great companies will experience setbacks. At such times, their stocks will underperform.

Enbridge stock had a down year last year. However, the investments it has been making and its integration with Spectra Energy could bring the company and stock to new heights in 2018.

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2. NYSE:ENB (Enbridge Inc.)
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4. TSX:ENB (Enbridge Inc.)
5. TSX:TOU (Tourmaline Oil Corp.)

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