Do-it-Yourself TFSA Investors: Why You Should Build Your Portfolio's Foundation With Dividend Aristocrats

Description

To construct a fully diversified portfolio yourself, many pundits would agree that you need 10-15 stocks covering a broad range of different sectors. Others would argue that you need more stocks in order to unlock the full power behind diversification.

There's no exact number, as it's not an exact science, but what's known is that the effects of diversification are diminished beyond a certain point.

What's the magic number?

Well, that really depends on how much time and effort you're willing to put into maintaining and re-balancing your portfolio. Unless you work in the investment world professionally, it's a daunting task to stay up to date on a portfolio of 20 stocks or more.

There are a tonne of developments out there that could derail your original investment thesis, and if you're not aware of such developments, you could be holding on to a stock that's destined to become a loser. Oftentimes, it's noise that's disguised as a meaningful development, which could cause an investor to make a rash decision. Thus, one can essentially "tune out" when it comes to news on various "forever stocks" that investors are comfortable with holding through thick and thin, no matter what types of developments occur.

If you are creating your own portfolio from scratch, you'll need at least 10-15 stocks to be properly diversified. But that doesn't mean each stock deserves an equal amount of your attention. If you find that you don't have time to keep up with the latest news behind each stock, then it's a great idea to own "blue-chip" stocks that only require you to "sit on your bum."

You will need to devote a substantial amount of time and effort before committing to purchasing such a stock, however. You'll need to find a wide-moat business with a means to increase its EPS over the next decade and beyond. Such stocks will also need to be fairly predictable and easy to understand, such that an investor can effectively project any potential "moat erosion" scenarios that could derail an investment thesis.

In the digital era, technological disruption is causing immense disturbances across industries that were previously thought of as immune from impacts in the tech world. Thus, it's become as important as ever to analyze the long-term durability of a firm's moat. The wider and more sustainable the moat, the less care you'll need to give over the years it's in your portfolio.

Consider **Fortis Inc.** (TSX:FTS)(NYSE:FTS), a defensive utility that's also a dividend-growth aristocrat. For many Canadians, in order to obtain power, one must either generate their own power or pay their bills. For many of us, it's uneconomical to invest a great deal of capital to produce our own energy, so there really is no other alternative than paying our monthly electric bills.

Furthermore, a considerable number of regulatory roadblocks may get in the way of other utility firms that want to open shop in Fortis's markets of operation. Not to mention, it'd take a substantial amount of capital to start a meaningful competitor that could steal Fortis's slice of the pie.

Fortis is a boring stock, and you really don't need to think about it on a day-to-day basis. The company has been quite active on the acquisition front, however, so investors can expect consistent dividend raises each year, even if the markets were to crash at some point over the next few years.

Bottom line

You really don't need to follow all your stocks consistently, especially if you've formed a blue-chip foundation that will allow your portfolio to run on cruise control. Fortis is a forever business with a wide moat, and in time, investors may wish to pay attention to dips, which are usually nothing more than an opportunity to put even more capital to work.

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