Why it Can Be a Good Idea to Add Some Risk to Your Portfolio

Description

Risk carries a negative connotation when it comes to investing, but it shouldn't be that way. There's always some level of risk when it comes to investing, and stocks that are the riskiest normally have the potential to generate significant returns (think penny stocks). But the amount of risk you decide to take on is entirely up to you and dependent on how aggressive your investing style is. It doesn't have to be an all-or-nothing approach when it comes to risk.

For instance, you can choose to invest in tech stocks, which typically carry a fair amount of risk but that shouldn't put your portfolio in significant danger, at least not in most cases. A good example of this is **Shopify** (TSX:SHOP)(NYSE:SHOP), which has generated significant returns for investors in recent years, but with the company's growth rate starting to slow down, we're seeing some of the excitement surrounding the stock start to taper off.

If the company continues to increase at a decreasing rate, it could send the stock down further in price, whereas a good quarter could spark a rally. Shopify has proven to be very volatile over the past year and definitely meets the criteria of a risky tech stock with lots of potential upside.

Meanwhile, a stock like **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) will not see that same level of volatility since investors know that over the long term there is minimal risk involved, and an earnings miss would have to be significant for a sell-off to ensue. While you'll get a safe and stable return by investing in a blue-chip stock like TD, it'll be difficult to outperform the market if your focus is on avoiding risk.

However, if your priority is holding on to your money and earning more than what can be gained through a savings account, then investing in bank stocks is a perfectly rational investing strategy. But if you're looking for anything beyond a nominal return, then you're going to have to be willing to add some risk to your portfolio.

Bottom line

There is nothing wrong with having some risk in your portfolio, as it's simply a way of compensating the market for the ability to earn a greater potential return. Even if you do your best to minimize risk, you'll never be able to get rid of it entirely. Any time you invest in a stock, you're being exposed to the risk related to the economy as a whole, and that's unavoidable.

In some cases, it's hard to even know you're even exposed to a risk until after something happens. **Home Capital Group** investors know all too well how quickly a stock can go over a cliff with no warning signs.

The only way to completely eliminate risk is to hold your money in a savings account, where you'll be lucky to earn north of 1%. If you're serious about investing in stocks, you need to know how much risk you are comfortable with in your portfolio and how important safety is over the potential to earn a high return.

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1. Investing

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