



## Diversifying Your Investments: Everything You Need to Know

### Description

Diversification is important for investor's portfolios to reduce the overall risk and expose investors to more chance for gain. It can be a crucial element that will crush you if you don't have any.

Some investors though, have argued that you don't need that much diversification, as it doesn't allow you to focus on your main stocks.

So, what is the best way to do it? What is the ideal number of stocks? What exactly should you be [diversifying](#) to and from? All these questions and more are answered below to help you fully understand the process and need for all types of diversification.

### How many stocks do you need?

There is no magic number for everyone, and it will depend on your financial situation, risk tolerance, capital available for investment and more. In general, most people believe the more stocks the better, which is true to an extent.

Of course, when you are talking small numbers of stocks, the marginal difference you get is quite large each time you add a new stock to the portfolio. As you move to portfolios with a greater number of stocks though, the marginal impact begins to diminish.

Furthermore, experts have agreed that once you hit a certain number of stocks, if you have diversified well among those, then buying more will have no impact on performance anymore.

Therefore, for most investors, finding at least 15-20 stocks would set you up to be well diversified.

### What to diversify from?

Again, the level of diversity you need will depend a lot on your personal financial situation, but it's important to understand the basics. Most investors believe diversification is from industry to industry,

which is probably the most important type, but there are many more.

Another important type is asset classes. Investors who are closer to retirement will especially know this, as it is extremely important to have a solid mix of equities and bonds.

Geographic diversification can be important too, not only is it for political reasons, which can have massive impacts on investments, but even certain geographies that may not be in the same country. A natural disaster in one region of the world can affect many different countries, so diversifying just based on country may not be enough.

The general thought is to have a number of assets that are not highly correlated with each other and that each can perform well at different periods to increase your portfolio's profitability regardless of market direction.

## What is the importance?

Diversification is extremely important because it's basically free insurance for your portfolio. It doesn't hurt you to have multiple stocks with upside, while it severely decreases your chances of a large loss.

It can be tempting when you find high-quality stocks you really love at bargain prices not to invest a lot of your money into them, but there are plenty of horror stories to suggest diversification is necessary for everyone.

Not all information is public, and what goes on behind closed doors will never be known until it's too late, so no matter how great the stock is, how great management is, or the industry or economics, it's always important not to over-expose yourself to any one company or industry.

A recent example would be **CannTrust Holdings**. Investors who'd bought in based on research of the numbers, capacity, revenue, deals with provincial governments, or any other research would have had no idea of the illegal activities that were going on there.

This is a risk in any business and is just one of the reasons to always diversify your investments, regardless of how strong you think the company is.

## Bottom line

The goal of diversification is to increase or keep your chances of the highest return possible constant, while minimizing risk in the process.

Everything performs differently and at different cycles in the market, which is why it's important for investors to try and own the best achieving company in each sector of the economy, so that over the long run the portfolio maximizes its performance.

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