TSX Stocks: Avoid This Easy and Costly Mistake

Description

Crafting a portfolio can be difficult. It isn't just buying **TSX** stocks. There's a lot to take into account. Before you even start, you should have a financial plan. Know what big expenses you have coming up in your life and what access to cash you may need.

Once you know the money that you have available to tie up in long-term investments, then it's time to make an investment plan. This requires you to decide what your level of risk is and what returns you expect to earn.

Are you looking to own higher growth stocks that will provide you with significant capital gains? Or is earning passive income through dividends your preferred investment strategy? It's crucial you answer these questions before you start to seriously invest for the long term.

And even once you answered these questions, you'll still have to select the high-quality securities that fit your investing plan. Once you get to this step, you'll see that diversification becomes key.

Diversification is one of the most important lessons to learn in investing. It can be even more complicated because it's not as easy as just buying several TSX stocks.

There are several considerations to make when trying to diversify your portfolio. You need to diversify based on geography, as well as by country. You may want to add small-cap stocks in addition to large-cap stocks.

It's also crucial to diversify by industry as well as the type of stock. Most investors won't have all income stocks or all value stocks in their portfolio, so it's important to get the right balance between all factors of a stock.

Avoid this mistake when buying TSX stocks

Often investors will want to diversify too much. However, it's just as important that you don't over diversify either.

Statistically, there's a certain number of TSX stocks where you can no longer diversify. Moreover, the more stocks you buy, the closer your return will be to the benchmark index. If that's your intention, you would be much better off just to buy the index and save on the considerable commission charges from buying each stock.

The magic number of stocks will depend on the size of your portfolio, but a general rule of thumb is roughly 25-30 stocks maximum.

Another way to think about it is that obviously, diversification is important, but you don't want to underexpose yourself to your top investments.

How to find the right balance

Once you have a portfolio of several stocks and more cash to invest, it can be difficult to decide what company to buy next. Warren Buffett recommends you start with your stocks first.

Obviously, you need to make sure your portfolio is well diversified, but once it is, some of the top potential stocks should be the ones you already own. Otherwise, why would you own the stocks in the first place?

One stock that I have been consistently adding to my portfolio is **Enbridge**. The stock is super cheap right now, offering superior long-term potential. In addition, its dividend is currently yielding 8.25% and is increased yearly.

Before I increased my Enbridge position, I had to make sure I had adequate diversification across my whole portfolio and wasn't too exposed to energy. However, once that was confirmed, it was an easy decision to double down, as Enbridge is one of the top long-term stocks on the market.

Bottom line

When you have TSX stocks like Enbridge, over time, as you save more money and have more to invest, you'll often find the top stocks you already own are some of the best potential investments.

Of course it's important to diversify, but you don't want to make the mistake of over diversifying either, which would limit your returns and cap your potential gains.

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