If GameStop (NYSE:GME) Taught Us Anything, It's Do This Instead

Description

While it might be nice to think that one day you'll find the next **GameStop Corp.** (NYSE:GME) stock, it's not realistic. Unless you're entrenched in the market, both as a professional and with links in the industry, it's unlikely you're going to miraculously pick up the next big stop.

No one could even have predicted such a rise and fall of GameStop stock. The company saw a major push from Reddit that sent the stock soaring to around US$350 per share. It then collapsed almost immediately down to as low as US$80 per share. While it then started trending upwards again, as of writing the stock was halted due to volatility yet again.

If you had bought GameStop stock and seen the climb, you would have had to be watching moment to moment to decide when to sell. But if you had a Tax Free Savings Account (TFSA), this really wouldn't have been an option. In many cases you cannot trade the same day, as this would be considered day trading and would make the TFSA a business account, and therefore taxable.

So instead of timing the markets and looking for the next big thing, GameStop stock has taught us the key to successful growth is diversification long term. In fact, in only a few years you could make the same gains as you would have from trough to peak from GameStop stock.

Diversification rules supreme

If you want to manage risk and continue to see growth, you need diversification, which means different industries, different funds, different countries, everything. While you might get lucky with one stock, it's more likely you'll have exceedingly high risk and could instead lose everything. While investing isn't gambling, this kind of investing is.

So let's say you were to use your TFSA contribution room towards a diverse portfolio. That would give you $75,500 this year. You could then use 50% of your portfolio toward stocks, 40% towards ETFs, and 10% towards stocks that are a bit more risky like GameStop.

A portfolio like this gives you minimal risk and a huge amount of safe investments to keep your money safe. Yet you still have some cash set aside to do some fun investing! That way even if your speculative stocks don't do well, you'll still have your 90% growing steadily.

Hold long term

Whether it's a GameStop stock or a bank ETF, you want to hold long term. You should be investing in the business rather than the "get rich" scheme. The longer you hold, the less risk you have. That's because while gambling is all about chance, the stock market as a whole trends upwards. So as long as you're investing in solid companies, you're very likely to see your stocks trend upwards as well.

So now you've decreased your risk twofold. You have a diversified portfolio where many areas can pick up the slack and see your assets continue to grow. You're also investing long term, potentially increasing your stake year after year with market dips but overall seeing growth for decades. You still have room for fun investing like in a GameStop stock, but you can still sleep at night.

CATEGORY

1. Investing
2. Personal Finance

TICKERS GLOBAL

1. NYSE:GME (GameStop Corp.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
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