



Start Building a Portfolio With These 3 Stocks

Description

Building a stock portfolio can be difficult. Not only are there are so many companies that you need to consider, but you need to explore many sectors to have a diversified portfolio. This can be a tough task for the everyday investor to wrap their head around. However, the process of building a portfolio can be fun when you have all of the resources made available to you. In this article, I'll discuss three stocks investors should consider when building a portfolio.

Start with a reliable compounding machine

The bulk of your portfolio should consist of companies that have proven to be compounding machines. By holding a collection of these stocks, you give your portfolio a great chance of producing strong returns for many years. An example of a company that I would classify as a compounding machine is **Brookfield Asset Management** (TSX:BAM.A)([NYSE:BAM](#)). This company is an [alternative asset management firm](#) that focuses on real assets such as real estate, infrastructure, and utilities.

Over the past decade, Brookfield Asset management has managed to return an average of 18.4% per year. This means that a \$10,000 investment made a decade ago would be worth more than \$54,000 today. For comparison, the **TSX** has returned an average of 4.4% over the same period. A company that tends to fly under the radar, Brookfield made major headlines last week when it announced it would be partnering with **Tesla** to develop the [world's first sustainable neighbourhood](#).

Add a proven growth stock

Once you have a core of reliable companies in your portfolio, it would be a good idea to add stocks that can give a bit more of a boost to your returns. These are companies that operate in high-growth industries. An example would be **Shopify** (TSX:SHOP)([NYSE:SHOP](#)). This company provides merchants with a platform and all the tools necessary to operate online stores. There are over 1.1 million businesses that use Shopify today, ranging from first-time entrepreneurs to large companies like **Netflix**.

Shopify has grown a lot since its IPO, and many investors point that out as a negative, since it's uncertain how much room this company has left to grow. However, the e-commerce industry is very much in its infancy. In 2020, online sales accounted for about 10% of all retail sales in Canada. Economists forecast that by 2030, it will account for 17%. In other regions like the U.K., online sales have accounted for more than 17% of all sales since 2018. As online retail continues to become more prominent, expect Shopify to continue growing.

Have one or two companies that could be home-run stocks

Finally, it would be a good idea to allocate a very small portion of your portfolio towards potential home-run stocks. Investors define a "home-run stock" many ways. When I refer to a home-run stock, I believe it is one that can grow 10-fold within the next decade. That means that a company valued at \$5 billion today could be worth \$50 billion within a decade. An example of such a stock is **Topicus.com** ([TSXV:TOI](#)).

Topicus was once a subsidiary of **Constellation Software**. Much like its former parent company, Topicus is an acquirer of vertical market software companies, but it focuses solely on the European market. Although it now operates as a separate entity, Topicus is still very much influenced by Constellation Software. Six members of its board of directors are executives from the former parent company. If Topicus can take advantage of that wealth of experience, there's a chance it could generate life-changing wealth, much like Constellation Software did a decade ago.

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2. NYSE:SHOP (Shopify Inc.)
3. TSX:BN (Brookfield)
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