

INTRODUCTION TO BUILDING A PORTFOLIO

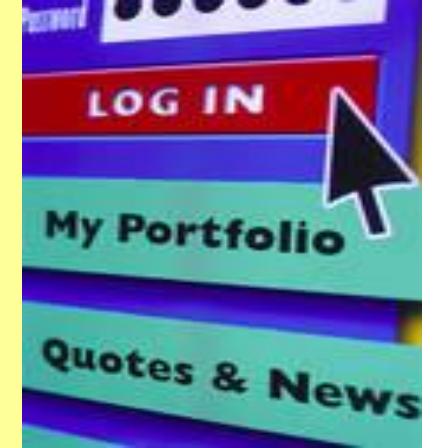
by Matt Ingram

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Oklahoma Securities Commission

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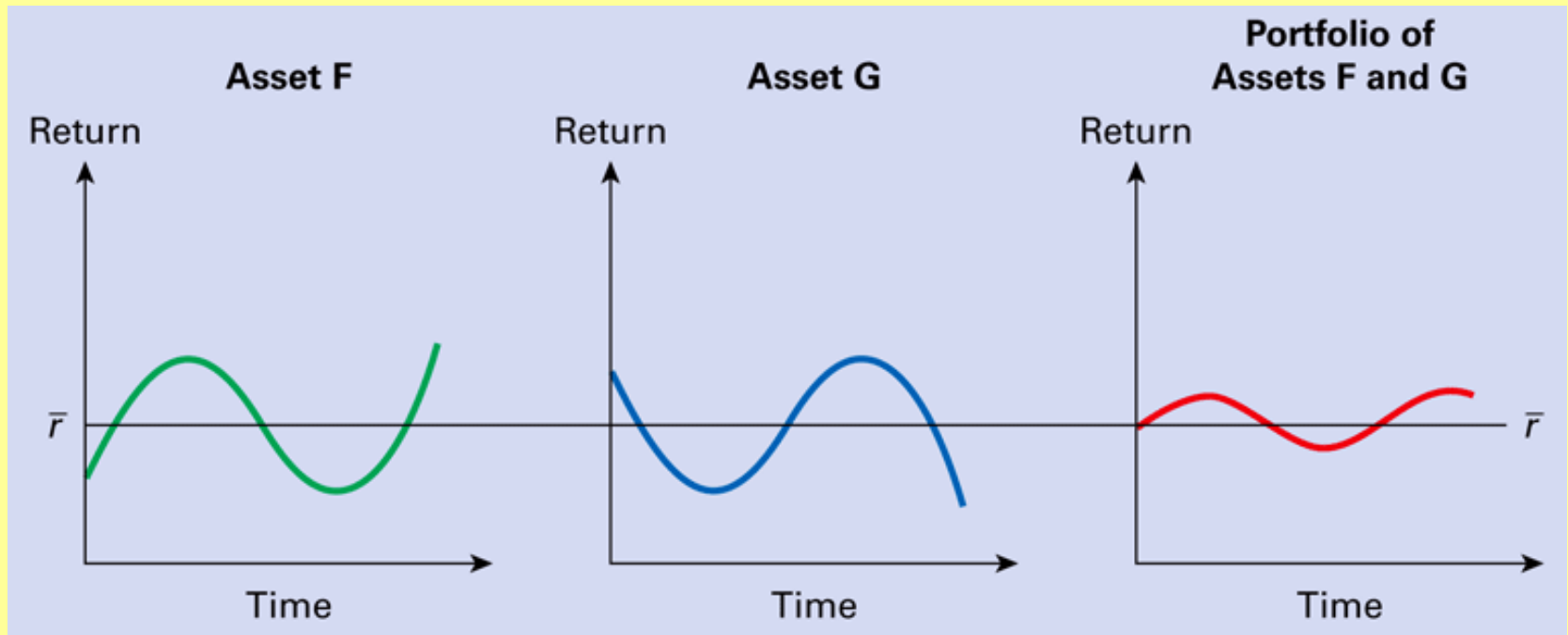
What is a Portfolio?



- **Portfolio** is a collection of investments assembled to meet one or more investment goals.
- What is diversification?
- Why should we diversify?



Combining Negatively Correlated Assets to Diversify Risk



Poll Question 1

A diversified portfolio

- a. has many companies in the same industry.
- b. has one or two stocks.
- c. has many industries and companies.



How Do I Put Together a List of Stocks?

- Where do I go to get stock ideas for a portfolio?
- Previous Teacher Workshop discussed this topic.
- Start with what you see and know.
- What is your day like?
- News
- Finviz.com - Map of the Market
- Stock selection and asset selection



What About



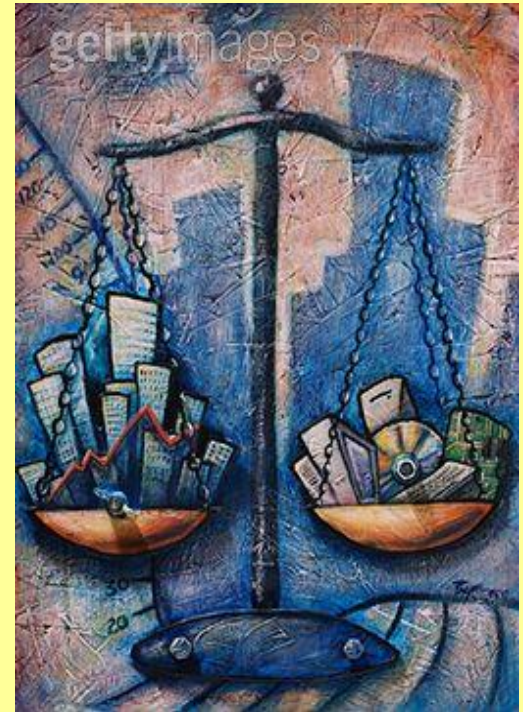
?

- What is risk?
- Why do we require more return for more risk?
- Company-specific risk
- Market risk
- We can't escape the risk that comes from the economy, political events, global events.
- How do we adjust for this?



How to Diversify

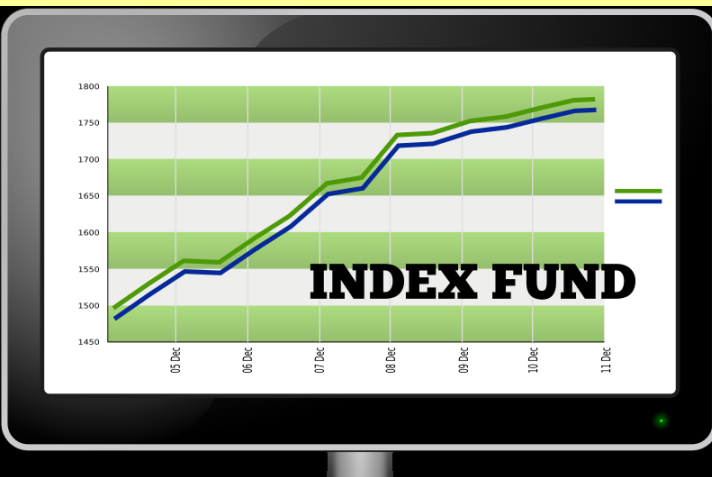
- “Balance” the portfolio using a wide variety of stocks.
- Use a broad range of industries to diversify the portfolio.
- 15 to 20 stocks = best



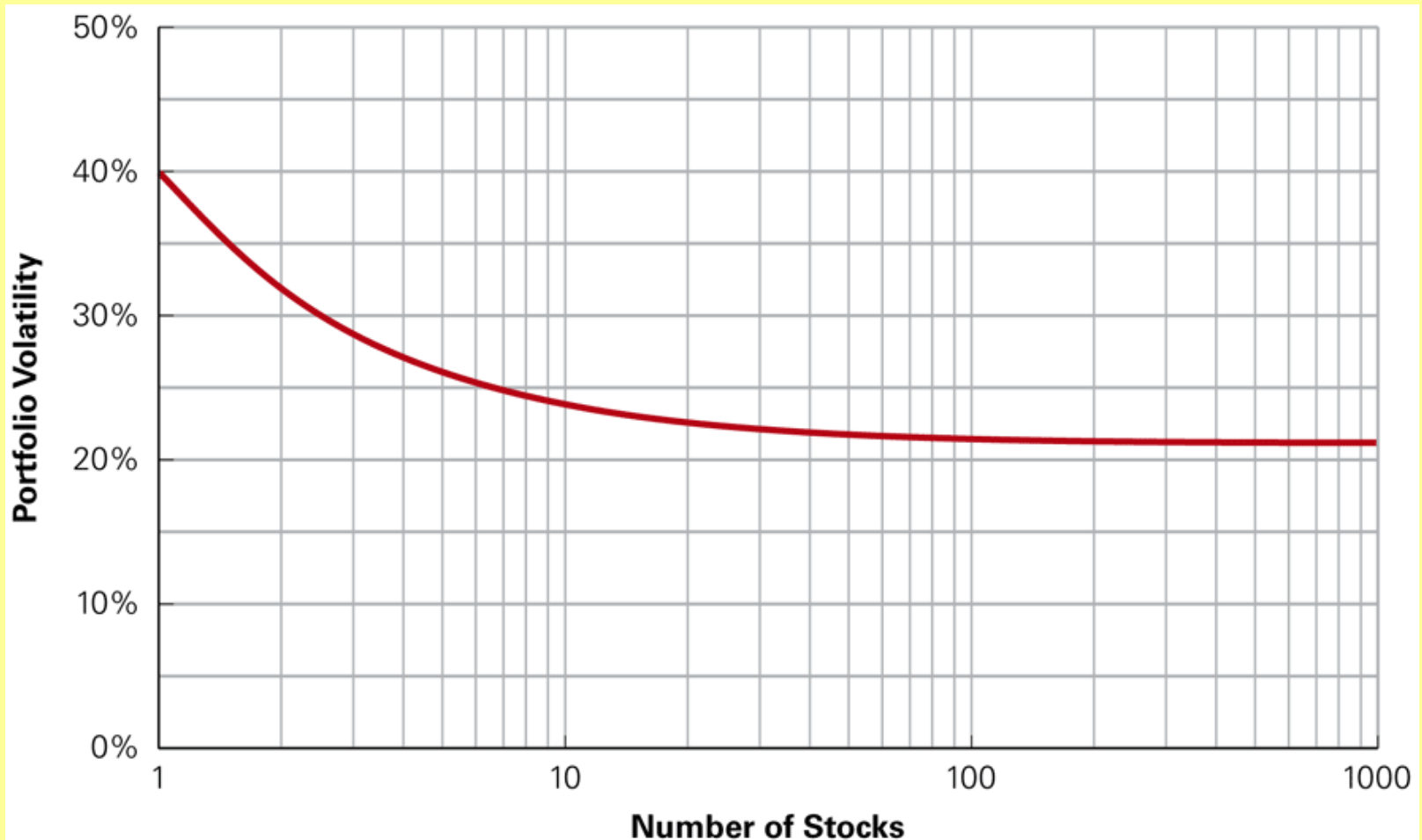
Poll Question 2

You can diversify by

- a. owning an index fund.
- b. owning 20 stocks.
- c. Both A and B are correct.



Diversification Lowers Volatility



A Little Volatility Can Go a Long Way

- In a sense, the high volatility of the riskier asset classes is one of the most valuable attributes for a portfolio.
- A 5% allocation to a risky asset class with low correlation to “mainstream” asset classes might contribute as much diversification as a 20% allocation to a less volatile asset class, so only a small amount needs to be invested to improve portfolio diversification.



Why Diversify Internationally?

- Offers more diverse investment alternatives than U.S.-only based investing
- Foreign economic cycles may move independently from U.S. economic cycle.
- Foreign markets may not be as “efficient” as U.S. markets, allowing true gains from superior research.

International Investing



- Advantages of International Diversification
 - Broader investment choices
 - Potentially greater returns than in U.S.
 - Reduction of overall portfolio risk
- Disadvantages of International Diversification
 - Currency exchange risk
 - Less convenient to invest than U.S. stocks
 - More expensive to invest
 - Riskier than investing in U.S.

Poll Question 3

Suppose you own French stocks through an ETF listed here in the U.S. All else equal, if the Euro strengthens against the U.S. dollar, the value of our portfolio will go up.

- a. True
- b. False



How Do We Invest Internationally?

- Foreign company stocks listed on U.S. stock exchanges
 - American Depository Shares (ADSs), Exchange Traded Funds (ETFs)
 - Mutual funds investing in foreign stocks
 - U.S. multinational companies (typically not considered a true international investment for diversification purposes)

