

## Determining the right mix for your investment portfolio

Stock portfolios often seem put together like the Mad Hatter's tea party - without rhyme or reason. We invest in the companies we work for. We buy stocks on the basis of tips from friends. And we end up with unbalanced, and therefore risky, portfolios.

What an investor really needs, of course, is a diversified portfolio of carefully chosen stocks with different performance characteristics and in different industries. Your ScotiaMcLeod advisor is your best source of guidance, but you can play an active role in selecting your stocks if you understand the basics.

Most stocks fall into one of four basic performance categories:

Conservative Growth or Blue Chip Large companies with sound balance sheets that pay consistent dividends. They are well-managed and sell well-known products in growing markets. These companies are diversified and generally sensitive to changes in economic conditions.

Aggressive Growth stocks These are small to medium-sized companies with a narrower product line than blue chip companies. Earnings growth for these companies is generally quite high while dividends are low or non-existent as most of the profits are re-invested in the further growth of the company. Stocks in this category are far more volatile than blue chips.

Income Stocks Companies in established industries, paying dividends above the TSE average. Examples are utilities, gas pipeline companies and chartered banks.

A fourth category, Special Situations, includes companies in cyclical industries, where a disastrous year can be followed by a very profitable year, turnaround situations, concept stocks or companies that occupy a certain market niche. These stocks generally have the greatest price risk, both on the downside and in upside potential.

You should also diversify your stocks over several industries. You can achieve good diversification with as few as seven stocks, provided each is in a different sector of the economy. Industry classifications vary, but are generally grouped as follows: Metals and Minerals, Golds, Oil and Gas, Paper and Forest, Consumer Products, Industrial Products, Real Estate, Transportation, Pipelines, Utilities, Communications, Merchandise, Financial Services and Management.

Obviously, every investment portfolio differs according to the needs and goals of the investor. In addition to stocks, for instance, every investor should have a liquid reserve for ready cash, and most people should also have a portion of their funds in bonds for assured income.



For the sake of illustration, let's take the case of a single professional or couple with \$50,000 to invest. Their main goal is to accumulate capital without taking much risk. Their portfolio would be weighted toward common stocks, perhaps as follows:

10% (\$5,000)	Cash or money-market funds.
20% (\$10,000)	Five or ten-year bonds, or coupons.
70% (\$35,000)	Common stocks, in the following proportions: \$10,000 in growth companies and \$25,000 in blue chip. These are the portfolio's core holdings: \$15,000 in utilities \$10,000 in resource companies \$10,000 in financial companies

Mutual Funds are an excellent investment vehicle to help small portfolios invest in the equity markets. Although particular categories or stock, as well as individual issues, can vary, the end result should be a balanced, diversified portfolio that can be fine-tuned as your objectives change over the years.

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