DIVERSIFICATION: BUILDING YOUR PORTFOLIO
COURSE HANDOUT

Diversification is a cornerstone of prudent investing and a fundamental principle for long-term success.

Diversify by company size:

- **Your size allocations will depend on your age and proximity to retirement.**
    - Large companies (more than $10 billion in sales)
        - 30%-50% of portfolio
    - Medium-sized companies ($1 billion to $10 billion in sales)
        - 5%-25% of portfolio
    - Small companies (less than $1 billion in sales)
        - 5%-25% of portfolio

Diversify by industry and sector:

- There are various systems for industry classification, and many financial data providers have their own system; the precise categorization isn't crucial for most investors.
- Avoid overconcentration in any industry or sector.
    - **Sector**: broad group of industries
    - **Industry**: specific grouping within a sector
- There is no single rule for allocation, but you should aim to spread your investments across several sectors.

Regular Portfolio Review – quarterly and/or annually

- **Assess** the performance of your holdings.
- **Investigate** deviations from your expectations.
- **Evaluate** your company's fundamentals.
- Consider replacing underperformers with stronger ones.
- Consider selling a portion of holdings that exceed 25% of your portfolio.

Avoid common mistakes:

- Selling after a price drop
- Holding onto losers
- Using stop-loss orders
- Selling winners too early
- Holding onto overvalued winners

Remember to **consider the tax implications** of your investment decisions.