RESEARCH CAPITAL
CORPORATION

The 'Hot Pick' Versus The Balanced Portfolio

The braggart who tells you about his latest killing never tells you about getting killed.

Broadly speaking, there are two kinds of people with money in the stock market: speculators and investors. Speculators are the people who put money into companies with an exciting new technology that might work or with a property that might be riddled with gold and diamonds. Speculators love to tell you about their latest killing; they never tell you about getting killed.

Investors, on the other hand, buy companies with proven technologies or producing mines that are managed by skilled people who achieve above-average earnings, thus enabling them to perform better than others in their sectors, year after year, and pay good dividends (which the taxman treats favourably) to their investors.

Investors also do not put all their money in one company, no matter how enticing it may be. Instead, investors split their portfolios along industry lines, buying some shares in a utility company, some in banks, some in manufacturing, and so on. If one sector isn't performing particularly well - perhaps the price of oil and gas is off the pace - manufacturing will probably benefit from the reduction in energy prices and be doing well. This is called balancing your portfolio, and while it reduces the chance of a big win, it also dramatically reduces the chance of a major stumble in your holdings.

Naturally, there are no guarantees that history will repeat itself, no matter how convincing the past may be, so a diversified portfolio reduces risk; it cannot eliminate it. We have seen, though, that for over 75 years, the only certainty is that the most dangerous course of action is 'playing it safe', so the odds favour careful, patient, but decisive action based on reliable information. For that, most people need help.