

BUILD AN INVESTMENT PORTFOLIO

Strong stock picks are easy as 1-2-3



The stock market lost almost half its value over the last year, making this one of the worst performing years in the markets history. While many investors see this as a time to salvage what they can and get out, experienced investors know this is a time of opportunity.

When you think about investing keep two words in mind: risk and return. Your goal is to reduce the risk you're taking while increasing your investment return. But before you get started, you need to understand portfolios.

A portfolio is a collection of investments, which may include stocks, mutual funds, bonds, real estate, commodities, or other types of investments. While you are young, and have more than twenty years before you retire, you should consider making a stock-heavy portfolio. Stocks have more risk, and therefore more potential reward. There are three steps to building a strong stock portfolio.

STEP 1:
Choose the sector(s)

The first step to building a portfolio is to identify the sectors you want to invest in. A *sector* is a group of businesses in a particular category that share similar characteristics. Some examples are:

- Energy: BP, Exxon
- Consumer Goods: Nike, Polo
- Technology: Google, Apple

Other sectors include: Basic Materials, Financial Services, Industrial Goods, Services, and Utilities. The idea is to pick different sectors to give your

portfolio diversification so it can withstand changes in the overall market.

STEP 2:
Select the stock

Once you've written down the companies and sectors you're interested in, you need to decide which individual stocks to buy. In order to do this, you'll need to research each one. Assume one of the stocks on your list is Nike (ticker symbol: NKE). Go to a free stock research website, such as www.morningstar.com, and find the "Quotes" section. Type in "Nike" or "NKE" and you'll see a variety of charts, graphs and ratios. Here are a few important items to review:

Price: Can you afford to buy the stock? The price quoted will be how much it currently costs to buy one share of stock.

you researched. As a general rule, you should never have more than 10% of your portfolio invested in any single stock.

FINALLY:
Don't forget to monitor

After you've invested, you should monitor your portfolio's performance on a weekly basis. There are websites that allow you to track your portfolio for free. Some, such as www.morningstar.com, have free email alerts, which will inform you when one of your stocks is in the news or releases new financial data.

If you're monitoring your portfolio and one of your stocks begins to perform poorly, you have to know when it's time to sell. If a stock you're watching goes down in value over a 1-year period, put it on your "watch list." If it goes

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Industry/Sector: Try picking stocks in different industries and sectors. Nike, for example, is in the Shoe industry and Consumer Goods sector.

5-Year performance chart: The 5-year performance chart shows what kind of investment history the stock has had. The typical market cycle last about five years, so you'll be able to see how the stock has performed through good times and bad.

STEP 3:
Pick the amount

Once you've decided upon the stocks you are interested in, you'll need to decide how much of each stock to purchase. Remember to be selective and only pick the stocks that excel in the areas

down for two consecutive years you may want to consider selling. Also, you may want to sell if the company gets sued, changes its product, or changes management. These are red flags that mean you'll need to do more research to see if the stock is *still* worth your money. **YM**

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