Ultimate Guide to Building a Winning Stock Portfolio

In-Depth Ultimate Guide to Creating Your Ideal Stock Portfolio, 7 Types of Portfolio, 8 Portfolio Strategy Examples + How to Manage Your Portfolio

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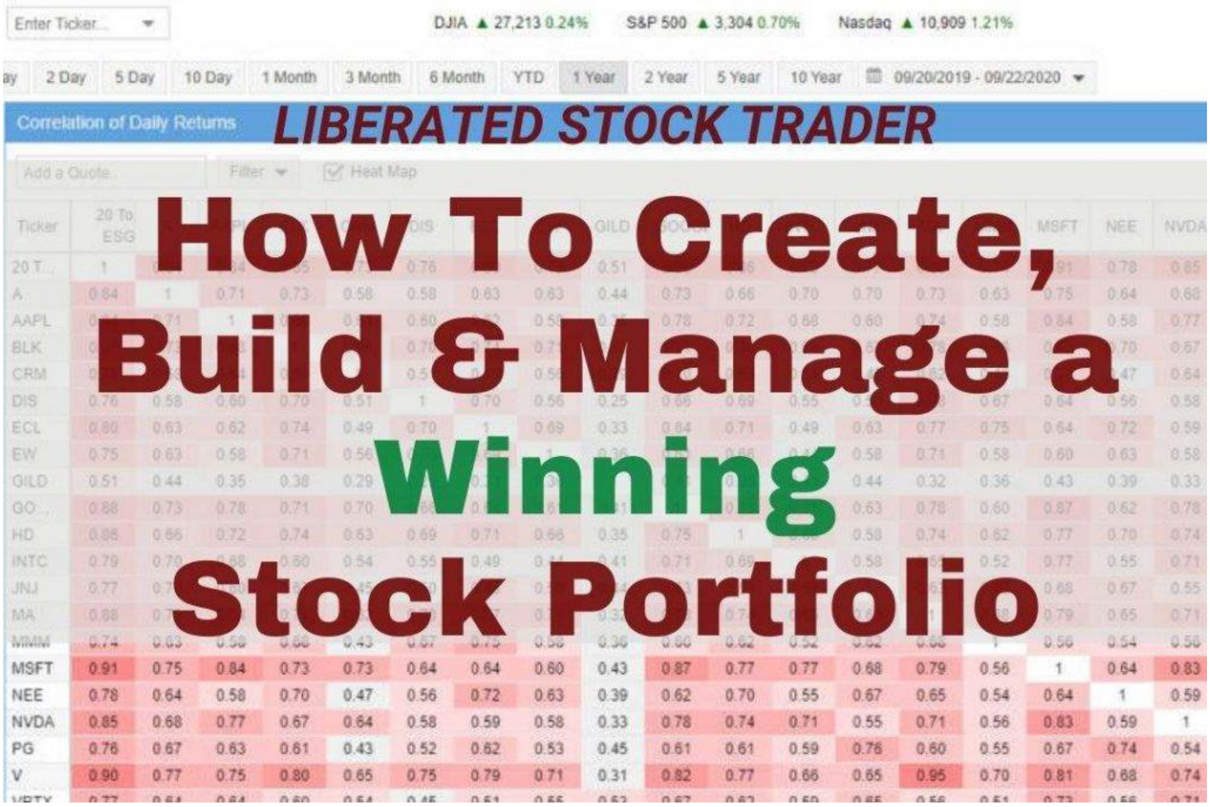
Introduction

A stock portfolio is one of the most powerful and essential investment concepts around. If you want to make money from your investments, you need to understand how to build, create, and manage a successful portfolio.

The concept of a stock portfolio is simple. Still, the process of building one can seem complicated at first because there are many kinds of stock portfolios and numerous portfolio-building strategies.

Fortunately, over hundreds of hours, we have created the ultimate guide to creating a create portfolio suited to your needs. If you make it through this article, you will have built a great foundation of knowledge.

You will learn portfolio building and portfolio management strategies to help you make money and protect your assets. You will learn to make money and reduce risks with effective portfolio management.



Ultimate Guide: How To Create, Build & Manage A Stock Portfolio

Learning the basics of portfolio management is the best way to begin stock investing. Here are some things you will need to learn about portfolios if you want to make money from stocks.

What is a Stock Portfolio?

A stock portfolio is a collection of stocks an investor hopes will protect their assets and make money. Investors usually design portfolios to implement investment strategies. Thus a portfolio often reflects an investors' philosophy and goals. Therefore, having an investment philosophy and strategy is the first step in building a stock portfolio. A portfolio without a strategy is built to fail.

Most portfolios contain specific amounts of stocks investors buy for certain purposes. A portfolio could contain both growth and dividend stocks, for instance.

Some stock portfolios also contain other kinds of investments. A portfolio could contain 30% bonds or certificates of deposit (CDs) to offer stability, safety, or liquidity.

Many popular portfolios contain both securities (bonds) and equities (stocks or funds). Other portfolios will contain cash in the form of bank accounts or CDs.

Managers place cash in a portfolio to ensure liquidity. Liquidity gives investors funds they can spend fast to take advantage of opportunities or cover emergency expenses.

The most successful stock portfolios are designed for specific individuals. For instance, a portfolio full of Blue Chip dividend stocks will serve a conservative individual. However, a portfolio of tech growth stocks will better serve a risk-taker.

Many experts recommend growth-stock portfolios for younger investors or those who need more income. The same experts will recommend portfolios full of dividend stocks or Blue Chip stocks for older investors and people who need to protect assets.

Thus a good way to think of portfolios is as investment strategies and expressions of investment philosophy. Another way to think of stock portfolios is as a means of protecting money and preserving assets.

What is Modern Portfolio Theory?

Economist Harry Markowitz won a Nobel Prize for creating Modern Portfolio Theory (MPT). Markowitz proposed Modern Portfolio Theory in a 1952 paper called *Portfolio Selection* in the *Journal of Finance*. Markowitz believes that it is a mistake for people to view investments as standalone products. Instead, Markowitz teaches that you must always view investments as part of a portfolio.

Under MPT, you must view investments as pieces of a pie rather than one-time purchases. Hence, under MPT, you purchase investments because they enhance the portfolio.

If you want more security for the portfolio, MPT teaches that you must purchase low-risk stocks or bonds. If you need more income, you need to add more growth stocks or dividend stocks to the portfolio.

The basis of Modern Portfolio Theory (MPT) is diversification. Diversification means buying several different kinds of stocks and securities to reduce risks and maximize gains.

An MPT portfolio will always be diversified. The pie-chart pictures of portfolios you see in investment prospectuses and online are an expression of MPT.

Many modern investment products, including mutual funds, Exchange Traded Funds (EFTs), annuities, 401K Retirement Plans, Individual Retirement Accounts (IRAs), superannuation accounts, and some CDs use variations of Modern Portfolio Theory. Most of the retirement accounts popular in the United States and Australia utilize MPT.

Some observers will argue that MPT is the basis of the modern fund management profession and the mutual fund and hedge fund industries. Many fund managers, whose pictures grace mutual fund prospectuses, use variations of MPT to control their clients' funds.

Thus, Modern Portfolio Theory has become one of the cornerstones of contemporary investing. Many investors employ MPT each day without realizing it.

An understanding of Modern Portfolio Theory can help you understand how today's markets work. MPT affects the entire market because enormous institutional investors base most of their decisions on modern portfolio theory.

Most investors create portfolios today because of MPT. Without MPT, today's stock market would be a very different place.

Giant fund managers, such as Vanguard, might not exist without MPT. Vanguard claimed to serve over 30 million customers in 170 countries in 2020. Thus, tens of millions of people use MPT to access the stock market and manage their funds.

How to Start a Stock Portfolio

Many people fail to start portfolios because they fail to conduct the research and planning necessary to create a successful portfolio.

Others fail at portfolios because they make the process too complex, expensive, intimidating. Many people fail because they think they need expensive expert help or special knowledge to build a stock portfolio.

All you need to start a stock portfolio is some money and a little knowledge.

You need to understand the basic investing strategies and philosophies before you launch the portfolio. Understanding value investing, growth investing, defensive investing, aggressive investing, income investing, and speculative investing will give you the basic knowledge to build a portfolio.

Studying the different kinds of portfolios is one of the best ways to understand the market and stocks. Studying individual stocks and markets provides invaluable knowledge and insight you will need.

You will also need to learn and practice the basics of stock analysis. There are many online tools for stock analysis that anybody can learn to use fast.

Read about stocks, follow the news, and read books on investment. You need to learn about stocks and how they work.

How to Build a Stock Portfolio in 7 Steps

Step 1. Determine Your End Goal

The first step in building a portfolio is to determine what your end goal is.

You can learn the goal by asking yourself questions.

Those questions include, Do I want to:

- ***Increase my wealth through growth stocks?***
- ***Provide a comfortable retirement?***
- ***Protect my assets?***
- ***Provide a steady source of income?***
- ***Create fallback sources of income for myself and my family?***

Once you have the goal, you can decide what type of portfolio you want. If your goal is more income, a speculative portfolio full of growth stocks could serve your needs. If a steady income is your goal, a dividend portfolio will meet your needs.

If income protection is your goal, a portfolio full of "**widows and orphans stocks"** is a good strategy. A **widow and orphans stock** is equity that represents a stable company that is a steady moneymaker.

Many people consider Apple (NASDAQ: AAPL) a widows-and-orphans stock; because it has enormous amounts of cash, pays a dividend, and grows steadily. The term "widows-and-orphans stock" is old investment industry slang for equity safe enough for people with no other sources of income, in other words, widows, and orphans.

Step 2. Choose Your Portfolio Strategy

- ***The Growth Stock Portfolio – Seeking Above Average Stock Price Growth***
- ***The Value Portfolio – Buying Companies Take Are Undervalued by the Market***
- ***The Defensive Stock Portfolio – Seeking Lower Risk Stock in Stable Industries***
- ***The Income Stock Portfolio – For a Regular Guaranteed Income***
- ***The Speculative Stock Portfolio – Seeking Higher Profits from Small Caps & Startup Companies***
- ***The Hybrid Portfolio – Balancing Stocks, Bonds & Treasuries to Minimize Volatility***

Step 3. Decide Who Will Manage Your Portfolio

Create & Manage Your Own Stock Portfolio

The most rewarding yet time-consuming way of managing your portfolio is to do it yourself. You will, however, need to put effort into research and screen for the stocks that meet your investing criteria. With care and attention, you can learn to build a portfolio of stocks that you believe in.

Using an Automated Robo Investment Advisor

A Robo Advisor is a computer program or algorithm designed to automate the job of a financial advisor by automating the buying & selling of stocks or ETFs and structuring an investment portfolio based on the investor's risk tolerance. These services are provided directly to investors online or via a smartphone app.

I firmly believe that Robo-Advisors provide a great balance of clarity and visibility into your investment and ease of use. They also typically have lower maintenance costs when compared to human financial advisors.

Our Review & Comparison of the Best Robo Advisors

For example, our review-winning automated financial advisor M1 Finance has many advantages over other robo advisors.

Overall M1 Finance allows you to have granular control over your portfolio or take advantage of the M1 expert portfolios; this is an excellent approach. M1, like the industry, is growing fast, and they offer a full suite of services, including checking accounts and borrowing. But when it comes to automated investment, M1 is clearly one of the pack's leaders and the only one offering Automated Investing for Free with Zero Commissions. Read the M1 Finance Review.

- Related Article: In-Depth Ultimate Guide to Robo Advisors

Using A Human Financial Advisor

A financial advisor can help you plan a portfolio, and most will either take a commission from the funds you invest in. You can also opt for a zero commissions advisor who will charge you for their time only. A zero commission broker can be a good way of eliminating any perceived conflict of interest that may occur between your advisor and the funds they promote.

- **Related Article: Robo Advisor vs. Human Advisor, Which Is Best For You?**

Step 4. Find The Stocks For Your Portfolio

To enable you to build a first-class stock portfolio, you will need the best software to enable you to screen for stocks, research the companies, and eventually manage your portfolio.

Stock Rover is by far the best platform for managing and maintaining a balanced and profitable stock portfolio. I use Stock Rover every day, and

I work with Stock Rover to develop portfolio strategies and screeners to beat the market.

Stock Rover won our Best Stock Screener and Portfolio Software Review and is a winner in our Top 10 Best Stock Market Analysis Platforms Review.

Step 5. Decide How Much To Invest

The third step in portfolio building is to decide how much money you have and how much you want to invest in stocks. A good rule of thumb is to determine how much of your income you need to live on. Then invest half the money you do not need in stocks.

It is a good idea to reassess your investing whenever your income changes. For instance, when you change jobs, another excellent piece of advice is to invest windfall income, such as bonuses, inheritances, gambling winnings, etc., in stocks. Investing any windfalls will help you avoid living beyond your means.

Once you know how much money you have, make a list of stocks you can afford and a list of stocks you like. Then compare the lists. Then examine the stocks on both lists to see which equities can help you meet your investment goals.

Remember, you need to be comfortable with the stocks for a portfolio to work. If there is a stock that makes you uncomfortable, sell it.

Step 6. Buy Your Stocks

The most important step in building a portfolio is to buy your first stock. The best way to begin is to start small by buying one or a few stocks you like. Buying a few shares is the best way to learn the stock buying process.

Once you become comfortable with stock buying, you can research and build your portfolio. A final piece of advice is to keep the portfolio as simple as possible to avoid complications and problems.

Ideally, you should not have more than 5 to 10% of your portfolio in any single stock. This means at least 10 to 20 stocks in your investment. You can, of course, diversify a lot more, as you will see in our section of diversification later in the article.

When managing your stock, you need to ensure you are using a zero commission broker. This means you will be able to buy or sell your stocks without incurring any trading fees.

In our review of the best online US brokers, Firstrade was a clear winner, not only for free stock trading but also for the service and the number of commission-free ETFs you can invest in. Read the Firstrade Review for further details.

Step 7. Monitor & Maintain Your Portfolio

You will need to keep monitoring the portfolio to see if it is achieving your goals. Another decision you will need to make is determining whether you want investments other than stocks in your portfolio.

Some people will create a hybrid portfolio that contains 10% or 20% mutual funds or ETFs as a cushion. The reason for this is to diversify the portfolio and give it a margin of safety. The drawback of this strategy is that it can limit growth potential.

The key elements in managing your portfolio include:

- Analyzing Portfolio Performance
- Portfolio Rebalancing
- Calculating Stock Portfolio Weighting
- Planning Future Portfolio Income
- Using Correlation to Ensure Good Diversification

All of these we cover in the next section.

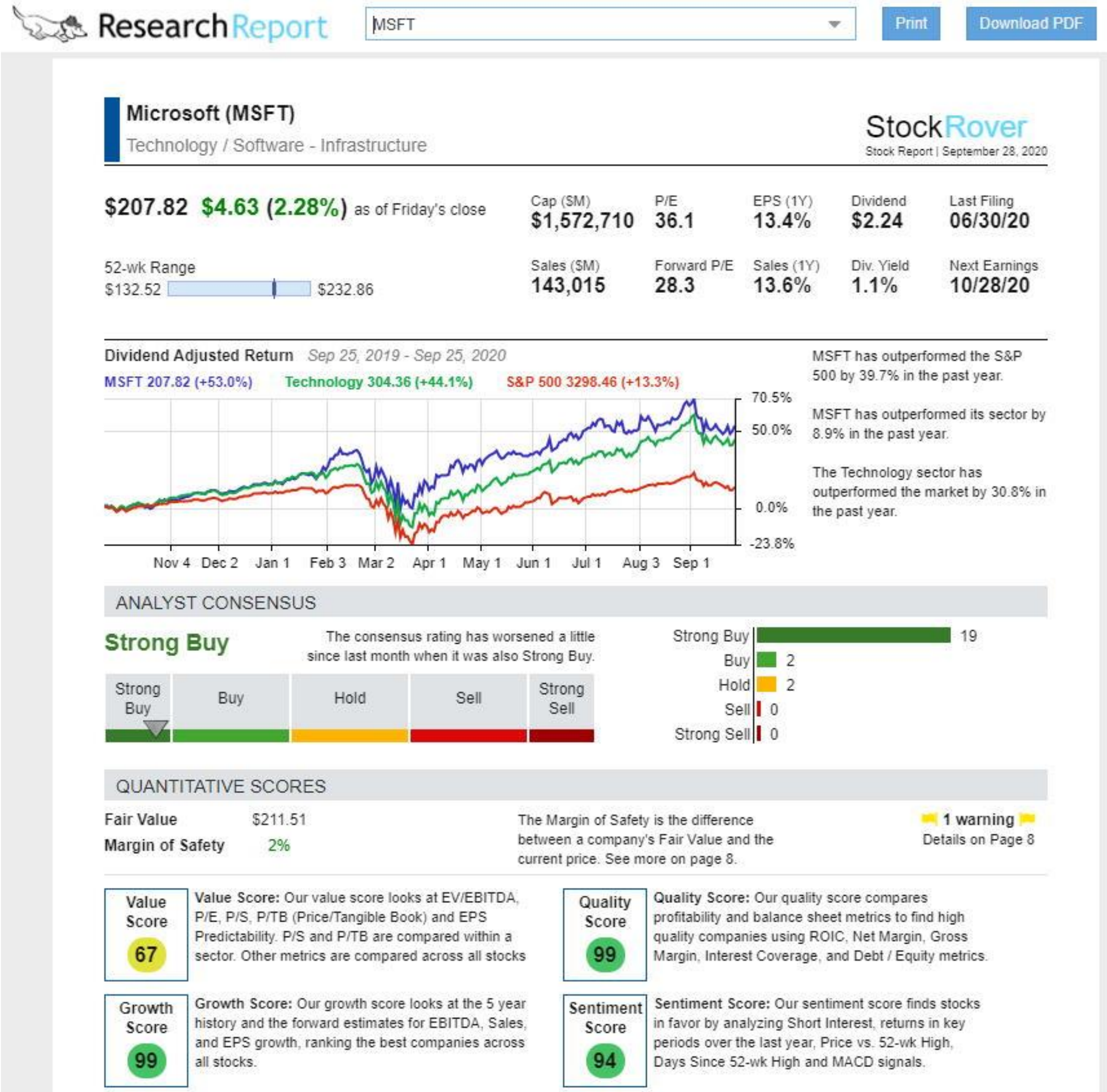
How To Manage a Stock Portfolio

Managing a stock portfolio entails performing ongoing tasks such as regular stock research, portfolio rebalancing, and understanding equities' correlation. In addition, it is vital to understanding future income and perform tax-loss harvesting to minimize the tax burden.

1. Perform Ongoing Stock Research

Now that you have built your stock portfolio, you need to ensure you regularly review the performance of the companies you own to ensure they still meet your selection criteria. For a value stock portfolio, that criteria might include a margin of safety above 30%; for a growth portfolio, the criteria might be an annual earnings growth of more than 20%. You may also want to read the highlights of the quarterly earnings report to ensure you still have confidence in your stock selection.

The team at Stock Rover makes this job much easier by providing on-demand real-time research reports on over 5,000 US-listed stocks. With stock Rover Research Reports, you do not need to wait until the company's annual earnings reports; they are always up-to-date.

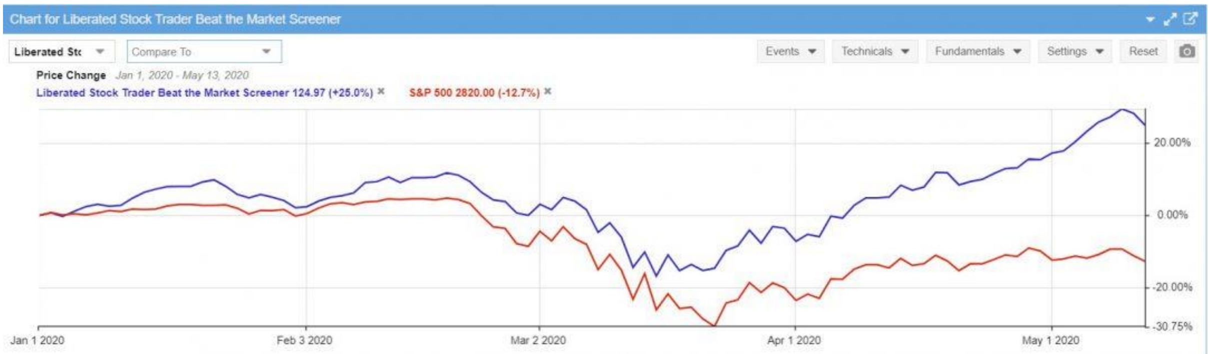


[Get Free Stock Rover Real-time Research Reports]

The research report creates something very new, a human-readable ***real-time research report*** highlighting a company's competitive position, market position, and historical and potential dividend and value returns. In the image above, you can see the dividend-adjusted commentary on Microsoft, a company I invested in because I found its excellent potential using my [Buffett Stock Screener].

2. Analyse Portfolio Performance

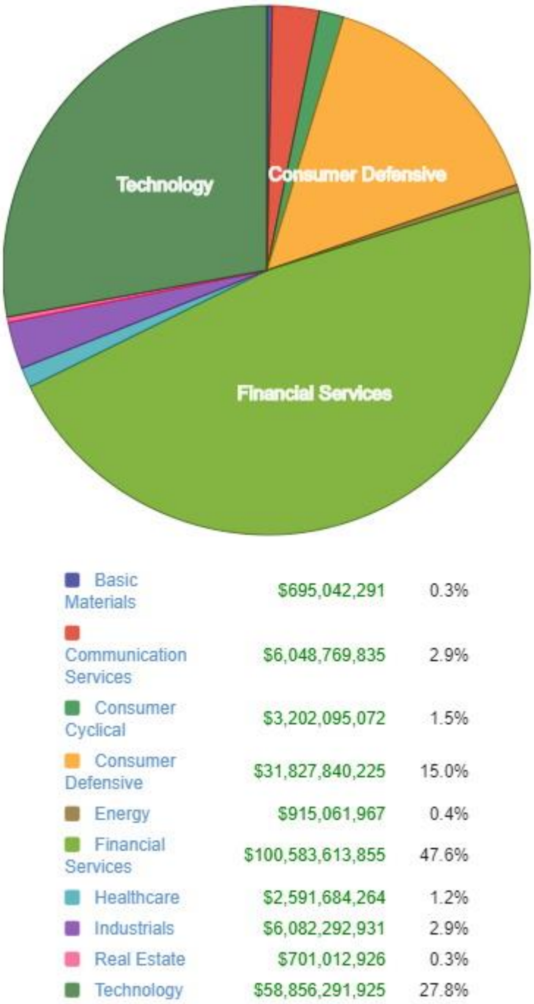
When managing your own portfolio, you will want to ensure it is maintaining solid performance.



Assessing Portfolio Performance Vs. The S&P500

But what is a good performance, 5%, 8%, or 10% growth per year? The answer is that any portfolio matching or exceeding the performance of the S&P500 in any given year is deemed a high-performing portfolio.

If the S&P500 grows by 20% in a year, your portfolio should also have at least 20% growth. If not, you can simply invest in an S&P500 index-tracking ETF and save yourself the time and effort in actively managing your portfolio.



[Warren Buffett Stocks – Portfolio Allocation & Analytics in Stock Rover]

In fact, you will need something that most discount brokers do not provide, detailed portfolio analytics.

The image to the right details the level of reporting and analytics available in Stock Rover. You can clearly see the percentage of your portfolio in each sector and industry and the dollar amount of the investment.

In this example, I used the **Berkshire Hathaway Watchlist** available in Stock Rover to perform a portfolio analysis of the companies assets. Here we can see that Buffett and Berkshire are highly invested in technology and financial services. I guess Warren Buffett & Charlie Munger are not focused on diversification but concentration.

3. Rebalancing & Weighting Your Portfolio

The fact is that some stocks grow faster than others, meaning that they will consume a larger percentage of your overall investment than was typically wanted at the inception of the portfolio.

For example, if you want to maintain a 5% per stock weighting in your portfolio and one stock, Microsoft Corp, for example, has grown to consume 10% of the portfolio. You might want to rebalance by selling a portion of Microsoft shares and purchasing other stocks.

Stock Rover has portfolio rebalancing built-in. It can connect to your brokerage account, perform detailed portfolio analysis, and suggest which stock you need to buy and sell based on your weighting and rebalancing criteria.

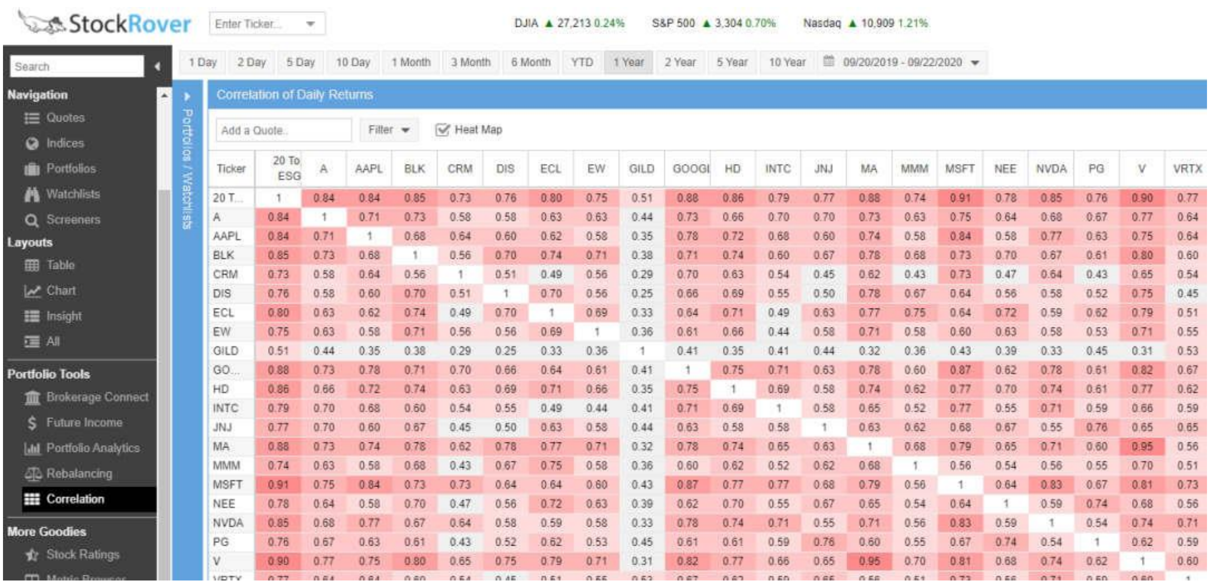
Ticker	Company	Sector	Price	Current Quantity	Planned Quantity	Current Value ($)	Planned Value ($)	Current Dividends	Planned Dividends	Current Value (%)	Planned Value (%)	Planned Trade
A	Agilent Technologies	Healthcare	$98.70	1,172	1,091	$115,696	$107,688	$844	$786	5.4%	5.0%	(81)
AAPL	Apple	Technology	$110.94	341	971	$37,780	$107,687	$279	$796	1.8%	5.0%	630
BLK	BlackRock	Financial Services	$548.43	199	196	$109,097	$107,690	$2,888	$2,851	5.1%	5.0%	(3)
CRM	Salesforce.com	Technology	$247.25	615	436	$152,023	$107,687	$0	$0	7.1%	5.0%	(179)
DIS	Walt Disney	Communication Servi...	$126.81	691	849	$87,675	$107,683	$0	$0	4.1%	5.0%	158
ECL	Ecolab	Basic Materials	$199.11	518	541	$103,171	$107,687	$974	$1,017	4.8%	5.0%	23
EW	Edwards Lifesciences	Healthcare	$78.30	429	1,375	$33,563	$107,688	$0	$0	1.6%	5.0%	947
GILD	Gilead Sciences	Healthcare	$63.53	1,539	1,695	$97,761	$107,679	$4,186	$4,611	4.5%	5.0%	156
GOOGL	Alphabet	Communication Servi...	$1,452...	75	74	$108,481	$107,680	$0	$0	5.0%	5.0%	(1)
HD	Home Depot	Consumer Cyclical	$272.47	458	395	$124,769	$107,688	$2,748	$2,371	5.8%	5.0%	(63)
INTC	Intel	Technology	$49.84	1,671	2,161	$83,275	$107,688	$2,206	$2,852	3.9%	5.0%	490
JNJ	Johnson & Johnson	Healthcare	$144.62	686	745	$99,147	$107,691	$2,770	$3,008	4.6%	5.0%	59
MA	Mastercard	Financial Services	$332.71	335	324	$111,427	$107,688	$536	$518	5.2%	5.0%	(11)
MMM	3M	Industrials	$162.47	567	663	$92,093	$107,688	$3,333	$3,897	4.3%	5.0%	96
MSFT	Microsoft	Technology	$206.61	634	521	$131,015	$107,687	$1,420	$1,168	6.1%	5.0%	(113)
NEE	NextEra Energy	Utilities	$278.05	413	387	$114,821	$107,689	$2,313	$2,169	5.3%	5.0%	(26)
NVDA	NVIDIA	Technology	$501.20	425	215	$213,005	$107,688	$272	$138	9.9%	5.0%	(210)
PG	Procter & Gamble	Consumer Defensive	$138.71	801	776	$111,053	$107,684	$2,532	$2,455	5.2%	5.0%	(24)
V	Visa	Financial Services	$199.74	532	539	$106,304	$107,691	$639	$647	4.9%	5.0%	7
VRTX	Vertex Pharmaceuticals	Healthcare	$266.24	457	404	$121,599	$107,689	$0	$0	5.6%	5.0%	(52)
Cash						$0	$12	$0	$0	0.0%	0.0%	
Summary						$2,153,752	$2,153,752	$27,939	$29,283	100.2%	100.0%	

Stock Portfolio Rebalancing – A Key Task

Here you can see what you need to do to maintain a balance of 5% per stock, how many stocks you need to buy, and sell for each asset owned.

4. Execute Portfolio Correlation

Portfolio correlation is an interesting concept that many portfolio managers like to discuss at length. Essentially a correlation analysis compares every stock against each other to assess how correlated they are. If you follow a strictly diversified portfolio concept, you way what to have stocks that reside in the same industry that are loosely correlated. Loose correlation means that two stocks move independently of each other. Tight correlation means the move mostly in a synchronized pattern.

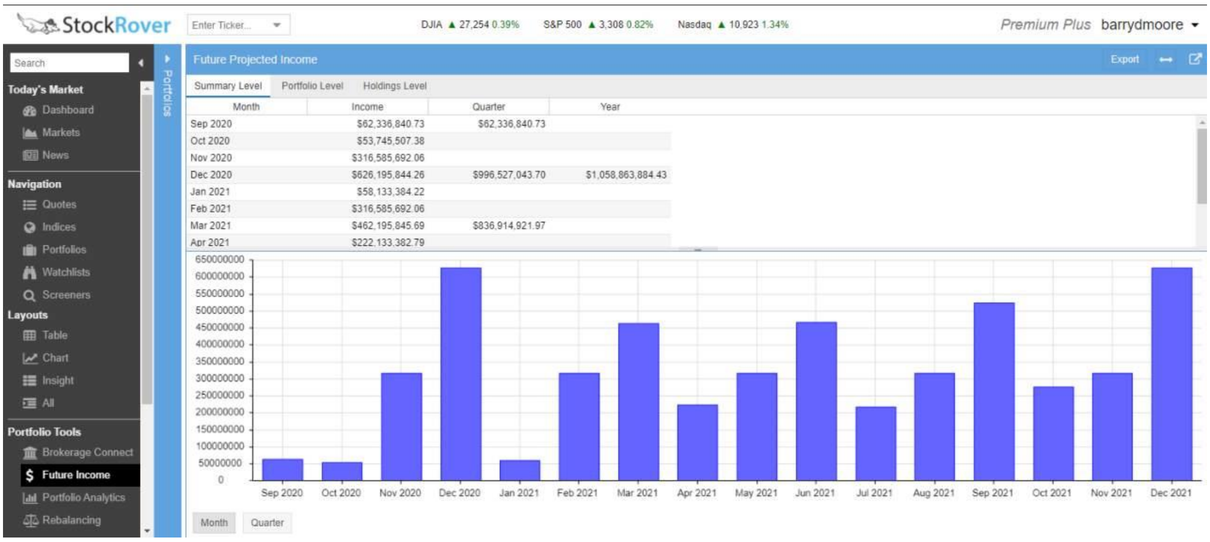


Stock Portfolio Correlation Reporting Helps Maintain A Diversified Portfolio

If correlation analysis is important to you, you need [Stock Rover](#).

5. Plan For Future Portfolio Income

When managing your portfolio, especially if it is an income portfolio, you will want to predict exactly when and exactly how much you will earn in dividends. This enables you to plan for your future income to support your life or plan for reinvesting those dividends.



[Planning & Predicting Future Dividend Income in Stock Rover]

6. Do Yearly Tax Loss Harvesting

Tax-loss harvesting is a strategy in which an investor sells investments at a loss.

Tax-loss harvesting can cut your tax bill because the Internal Revenue Service (IRS) lets Americans deduct investment losses from their tax bills. Many investors use tax-loss harvesting to cut the amount of income they have to report to the IRS.

If a stock’s price doubles in value, the investor could sell that stock to reduce the value of his portfolio. You will need to be careful with tax harvesting because the IRS does not allow wash sales.

In a wash sale, an investor sells an expensive investment and buys a similar but cheaper stock to limit a portfolio’s value. A person could sell Amazon (NASDAQ: AMZN) and buy eBay (NASDAQ: EBAY), for instance. The IRS usually considers a transaction a wash sale – if you buy another stock within 30 days of the sale.

You will need to keep good records of every transaction if you tax loss harvest. The IRS can ask you for those records at any time.

Tax-loss harvesting can be complex. Only investors who could face a high income-tax bill should consider tax-loss harvesting. For most investors, the risks of tax-loss harvesting will exceed the benefits.

Most tax experts consider tax-loss harvesting a waste of time for those in low tax brackets. Unless you have over $50,000 in stocks, tax-loss harvesting will probably be a waste of time for you. Paying the taxes will probably be cheaper and easier than tax-loss harvesting for most investors.

The unusual activity associated with tax-loss harvesting could attract IRS attention and lead to an audit. Thus, tax-loss harvesting can lead to IRS entanglements.

9 Types of Stock Portfolio

The variety of portfolio types is infinite. Most investors, however, prefer a few portfolio strategies. Here I detail some of the best performing stock portfolio methodologies and further reading on how to recreate the strategies for yourself.

Some of the most popular stock portfolios today include:

1. The Growth Stock Portfolio

When investing in growth stocks, you are seeking to profit most from the increase in a company's stock price. One of the most famous growth strategies is the CANSLIM strategy.

CANSLIM is a stock investing strategy designed by William J. O'Neil to produce market-beating profit performance. Using the CAN SLIM criteria in your investing should mean profitable returns. Current Earnings, Annual Earnings, New Products, Supply, Leaders, Institutional Sponsorship & Market Direction, are vital criteria.

CAN SLIM has the following stock selection criteria:

- Current Earnings
- Annual Earnings
- New Products or Management
- Supply and Demand
- Leaders
- Institutional Ownership
- Market Direction

Pioneered by William J. O'Neil, the CANSLIM method is the basis for his classic investing book, "How to Make Money in Stocks."

Many people believe that the CANSLIM methodology is a Value Investing strategy, but this is incorrect, as the system criteria do not target finding undervalued stocks but instead finding companies with fast-growing earnings in growing markets with a competitive advantage. So CANSLIM is more like a stock market growth strategy.

[CANSLIM – Stocks, Screening, Criteria & Strategy](#)

2. The Value Stock Portfolio

Value investors purchase cheap stocks for their underlying value. The classic value strategy searches for companies with enormous amounts of cash or assets and a cheap stock.

Most value investors follow the strategies of value gurus such as Warren Buffett, Seth Klarman, Joel Greenblatt, or Howard Marks. Other value investors buy stock in companies that they are familiar with.

[Article: How To Build The Ultimate Buffett Value Stock Portfolio]

A typical value portfolio will stock in established companies that are proven moneymakers. A value portfolio could contain many shares of Apple (AAPL), Amazon (AMZN), and Microsoft (MSFT) and not Tesla (TSLA) or Netflix (NFLX).

Value portfolios are popular because they require little attention from investors. Value investors prefer sitting back and watching stocks make money to active investing.

- **Must Read: 4 Easy Steps to Build The Best Buffett Value Stock Portfolio**

3. The Income Stock Portfolio

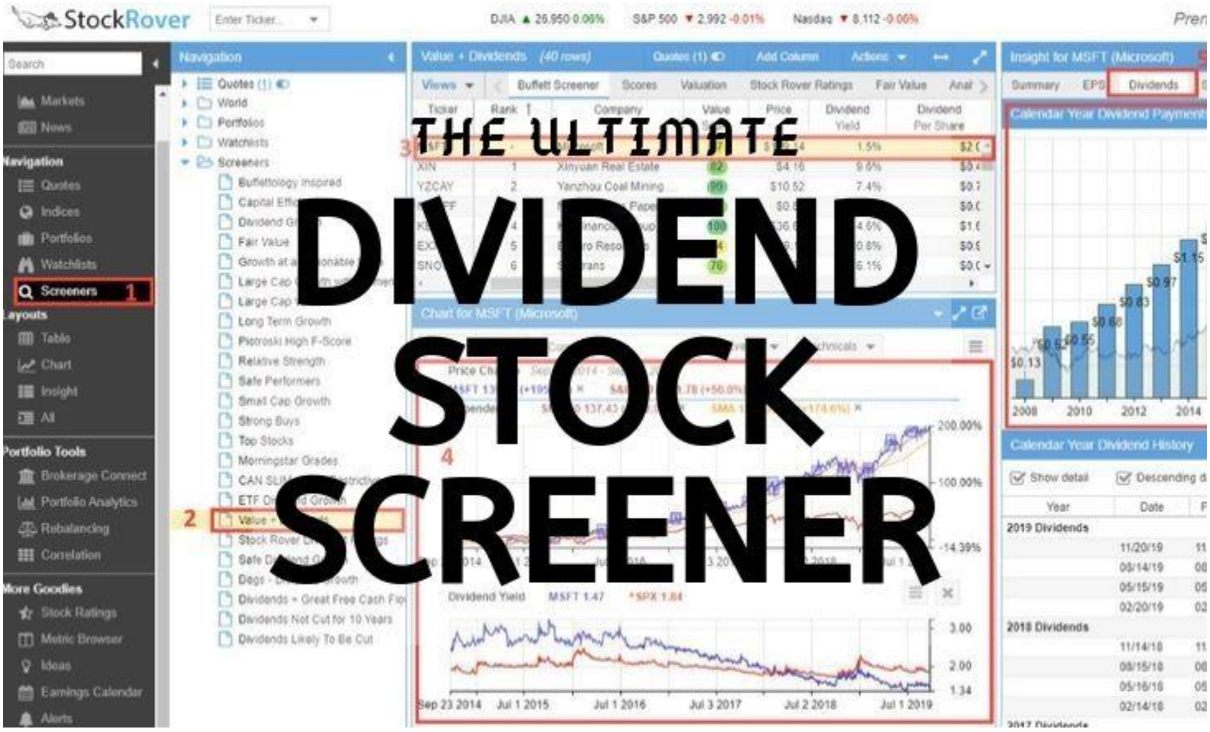
You design an income portfolio to generate income (have money coming in) rather than growth.

Income portfolios are often filled with dividend stocks because dividends provide a steady stream of cash. An income portfolio will contain Walmart

(NYSE: WMT), which pays a dividend instead of Amazon, which pays no dividend.

A common income strategy is to fill a portfolio with high-dividend stocks. High-dividend stocks can be dangerous because many high-risk companies will pay high dividends to increase stock prices.

For instance, real estate investment trusts (REITS) depend on rent or leases for income. REITS can collapse in an economic downturn because tenets stop paying rent. A REIT will lose money if its properties are sitting empty. Thus income portfolios can also be unstable and contain more risk than expected.



Build The Best Dividend Stock Screener & Implement Your Strategies

Investment advisers usually recommend income portfolios for people with limited incomes or no income besides investments. An adviser could recommend an income portfolio to a person with a lot of cash in the bank but no job. They often recommend income portfolios for retired people who have other sources of income, such as Social Security, rental properties, pensions, and annuities.

Thus you can describe an income portfolio as a defensive portfolio.

4. The Ethical (ESG) Stock Portfolio

ESG investing (Environmental, Social & Governance) enables ethical investors to channel their capital to companies that demonstrate environmental sustainability, social responsibility, and good corporate governance. ESG investing can be done by investing in specific companies or investing in some of the new ESG funds.

What is ESG investing? Investing in Companies with a Good Track Record on Environment, Social & Governance

5. The Aggressive Stock Portfolio

An aggressive growth portfolio is designed to seek enormous gains or growth while ignoring risk. An aggressive portfolio could be full of startup and high-growth tech stocks, for instance. Aggressive investors love tech because tech companies have a long history of fast growth.

Aggressive portfolios can be dangerous because growth stocks can collapse fast. Many growth stocks do not pay dividends, which can make aggressive portfolios even more dangerous. Dividends generate some cash, which increases liquidity and the margin of safety.

An aggressive portfolio could contain 35% Amazon (NASDAQ: AMZN) and 30% Alphabet (NASDAQ: GOOG), for instance. A popular aggressive portfolio in America is the FANG. The FANG stands for Facebook (NASDAQ: FB), Amazon (NASDAQ: AMZN), Netflix (NASDAQ: NFLX), and Google (NASDAQ: GOOGL), the popular name for Alphabet.

The FANG is a growth portfolio because those companies offer high rates of growth but also pay dividends. A popular variation on the FANG is FAANG, Facebook, Amazon, Apple, Netflix, and Google. Apple (NASDAQ: AAPL) pays dividends, unlike the FANG stocks.

Financial advisers often recommend aggressive portfolios for younger investors and low-income people. Younger people can afford risks because they will be in the market longer and adjust their strategy as time passes.

6. The Defensive Stock Portfolio

A defensive portfolio is designed to protect income and assets at all costs.

Investors often fill defensive portfolios with dividend stocks in older companies with long histories of stability. A defensive portfolio will contain Disney (NYSE: DIS) rather than Netflix (NASDAQ: NFLX), or Apple (NASDAQ: AAPL), instead of Facebook (FB), for example.

Many defensive portfolios will also contain securities viewed as safe, such as US Treasury Bonds, in addition to stocks. Other defensive portfolios will invest in CDs, annuities, or insurance policies to preserve part of the assets.

Advisers often recommend defensive portfolios for high-income people and retired individuals who need to preserve their wealth. Such a person could be an executive preparing for retirement or a high-income individual in an unstable profession such as the arts.

7. The Speculative Stock Portfolio

A person assembling a speculative portfolio is betting on future growth. A FANG portfolio owner could bet that the FANG stocks will double or triple in value soon.

Speculative portfolios are often filled with cheap stocks with high growth potential—mining, technology, and energy companies, for example.

A speculative portfolio owner takes a high level of risk in exchange for the possibility of high growth and big money. Many speculative portfolio investors expect to take on more risk in return for higher rewards.

A speculative portfolio is an aggressive portfolio because speculative investors take big risks and seek high levels of growth. Investment advisers recommend speculative portfolios for those who can afford to lose money.

A speculative portfolio could be a wise move for an executive with a high salary and lots of extra cash. However, a speculative portfolio will be a terrible move for a retired teacher who relies on stocks for extra income. The executive can afford to lose money the teacher cannot.

Many observers consider leveraged exchange-traded funds (ETFs) speculative portfolios. In a leveraged ETF, the manager uses money borrowed against the assets to make additional investments to generate growth. A leveraged ETF manager could buy Amazon to increase the ETF's value, for example.

8. The Hybrid Portfolio

A hybrid portfolio uses two or more strategies to achieve more than one goal.

A hybrid portfolio could contain stable dividend stocks to generate income while protecting the investors' assets. A hybrid portfolio could also contain 30% growth stocks, 50% defensive stocks, and 20% income stocks.

Many hybrid portfolios contain securities (bonds) and cash (usually in the form of CDs) in addition to stocks. Some hybrid portfolios will contain insurance products, including annuities or life insurance, to ensure income.

Advisers will recommend hybrid portfolios for people with multiple investment needs—a person who requires some income now but also needs to save for retirement, for instance.

Most retirement portfolios are hybrid portfolios because they contain multiple kinds of investments. Many retirement accounts will invest in stocks, mutual funds, CDs, and bonds, for instance.

Hybrid portfolios can be dangerous because they can contain high-risk products investors are unaware of. Some dividend portfolios contain REITs, for example.

9. Specialized Portfolios

There are many specialized portfolios creators design to achieve a specific goal or reflect their values.

Examples of such portfolios include indexes that do not include companies that produce goods or services; some investors could find immoral. A portfolio could include no investments in companies that make weapons or sell alcohol, for example.

Today's popular specialized portfolio is a clean energy index that does not invest in companies that produce fossil fuels. Other examples of specialized portfolios include indexes with stocks from one country or region.

Such specialized portfolios are more of a value statement than a strategy. Most specialized portfolios will also use an aggressive or defensive strategy to achieve goals.

8 Great Stock Portfolio Examples

The best way to understand stock portfolios is to examine successful investors' portfolio strategies. Many famous investors have designed portfolios you can copy.

Some famous stock portfolios you can build include:

1. The Liberated Stock Trader Beat the Market Portfolio

The Liberated Stock Trader *Beat the Market Screener* seeks to select stocks with a significant chance of beating the S&P500 returns. The screener uses growth in free cash flow and explosive EPS growth. Combining this with Joel Greenblatt's ROC and Earnings Yield formulas, "the Magic Formula," we have a selection of stocks that beat the market 5 of the last seven years.

In this article, I will discuss the criteria and the methodology that goes into the screener and cover the current results and 7 years of backtesting.

The Liberated Stock Trader "Beat the Market" Portfolio Outperformed the S&P500 by 50% over the last 7 Years to 2020

This work has been made possible due to the fabulous work done by the team over at our partner Stock Rover, who has created a stock research and screening platform that won our in-depth Best Stock Screener Review for the last two years.

Why is Stock Rover so special when it comes to creating superior stock screeners? Because Stock Rover maintains a clean 10-year historical database of hundreds of vital ratios, calculations, and metrics. This means you can travel back in time to test if your stock selection criteria have worked in the past.

This Liberated Stock Trader *Beat the Market Screener* ***(LST BTM)*** is built into the Stock Rover library and is available to all Stock Rover Premium Plus Subscribers.

2. Warren Buffett's 90/10 Portfolio

In his *2013 Letter to Shareholders,* Buffett proposed a simple hybrid portfolio for ordinary people.

Buffett's model portfolio consists of 90% S&P 500 stocks and 10% short-term government bonds. Buffett designed this defensive portfolio for the average investor whom he thinks needs asset protection more than growth.

Buffett recommends investors buy a low-cost S&P 500 Index fund for the stocks, but you could use the same strategy for value stocks. The danger with the 90/10 Portfolio is that it relies on American stocks.

A 90/10 portfolio with 30% US stocks, 30% European Stocks, 30% Chinese stocks, and 10% bonds could be a good idea in today's world. Global diversification could be a smart strategy because coronavirus demonstrates how vulnerable national and regional economies are to outside threats.

3. The Berkshire Hathaway Stock Portfolio

One way to think of Berkshire Hathaway (NYSE: BRK.B) is as a giant stock portfolio.

Thus, you can create your own Buffett stock portfolio by reading lists of stocks Berkshire Hathaway owns. The thinking behind this portfolio is that its performance could replicate Warren Buffett's success.

Berkshire Hathaway's ten largest stock holdings in 2020 were Bank of America (BAC), Coca-Cola (KO), Kraft Heinz (KHC), Apple (AAPL), Wells Fargo (WFC), American Express (AXP), US Bancorp (USB), Bank of New York Mellon (BK), and Sirius XM (SIRI). You could create a portfolio by placing 10% of your investment in each of those stocks.

This strategy has risks because it is heavily focused on the traditional economy, heavy industry, energy, finance, real estate, tech, and the US economy. However, Buffett has done well by it; he had the world's fourth-largest fortune of $82.3 billion in September 2020.

- **Related Article: 20 Insights Into Warren Buffett Stocks + Full Portfolio Analysis**

4. Diversified Stock Portfolio

Paul Merriman thinks investors need to diversify among asset classes to protect their assets.

To that end, Merriman offers a simple formula for buying stocks by asset class. Merriman proposes dividing the portfolio by ten and making 10% of investments in different kinds of stock.

Here's Merriman's proposal:

- 10% S&P 500
- 10% US Large-Cap Value
- 10% US Small-Cap Blend
- 10% U.S. Small Cap Value
- 10% US REITs
- 10% International Large Cap Blend
- 10% International Large Cap Value
- 10% International Small Cap Blend
- 10% International Small Cap Value
- 10% Emerging Markets

The advantage of this model is that it is simple and provides a high level of diversification. Diversification protects assets and limits exposure to many risks.

The disadvantage of Merriman's proposal is that it will only generate small gains. An investor could miss big share value growth in the S&P 500 or the Nasdaq 100. This portfolio could also lock in risks from small caps or REITs.

5. The Ivy League Stock Portfolio

America's famous Ivy League Universities are among the world's largest and most successful private investors. *Forbes* writer Simon Moore thinks ordinary people can make money by copying the portfolios of Harvard, Yale, and Stanford.

The three universities' portfolios include 35% US Stocks, 28% bonds, 15% foreign stocks, 11% commodities, and 11% real estate. The advantage of this portfolio is that it puts most of the money in the investment with the highest growth US stocks.

The disadvantage to the Ivy League Portfolio is that you will need to invest in more complex investments, including commodities. Thus, an Ivy League portfolio is a good choice for high-income individuals.

An investor could modify the Ivy League Portfolio by eliminating real estate and commodities. The investor could replace the real estate with REITs and the commodities with stock in commodities-producing businesses such as oil companies or commodities Exchange Traded Funds (ETFs).

6. Bill Bernstein's No Brainer Stock Portfolio

Bernstein recommends this simple strategy in his book *The Intelligent Asset Allocator*. Bernstein bases his plan on academic research and historical performance. He designed the No Brainer Portfolio for long-term performance.

The No Brainer Portfolio consists of 25% Bonds, 25% European stocks, 25% US small-cap stocks, and 25% S&P 500 stocks. Simplicity is this strategy's advantage. The disadvantage to the No Brainer Portfolio is high exposure to the risks of Europe and the US small-cap market.

Today a person could modify the No Brainer by replacing the US small-cap stocks or the European stocks with 25% Chinese stocks. Another strategy could be to replace the European or US Small Cap stocks with emerging markets stocks.

7. The FAANG Stocks Portfolio

Facebook (FB), Amazon (AMZN), Apple (AAPL), Netflix (NFLX), and Alphabet (GOOG), formerly Google, are five of the fastest-growing stocks in history.

FAANG is attractive because the FAANGs have a high margin of safety because of their huge market capitalizations. Three FAANGS, Apple, Alphabet, and Amazon, had market capitalizations exceeding $1 trillion on September 4, 2020.

People buy FAANGs because they think their money is safe and will grow. The disadvantage to the FAANGs is their high prices.

- **Related Article: FAANG Stocks, 45 Reasons to Still Buy Them**

8. The NAMPOF Stock Portfolio

A FAANG alternative is a basket of tech stocks composed of NVIDIA (NASDAQ: NVDA), Apple (NASDAQ: AAPL), Microsoft (NASDAQ: MSFT), PayPal (NASDAQ: PYPL), Oracle (NYSE: ORCL), and Facebook (NASDAQ: FB). I call this portfolio the NAMPOF.

NVIDIA, Apple, Microsoft, and Oracle are in the NAMPOF Stock Portfolio because those stocks pay dividends. I consider Oracle, Microsoft, PayPal, and NVIDIA value investments because they are relatively cheap and underappreciated by the markets.

4 Ways to Diversify A Stock Portfolio

You will need to diversify your portfolio to protect your assets and ensure some income.

Diversifying a portfolio is easy but confusing because there are many diversification strategies. Most investors experiment with several diversification strategies until they find the one they are most comfortable with.

Some of the most popular portfolio diversification strategies include:

1. Sector Diversification

Purchasing stocks in several different types of companies in various sectors of the economy. Placing 25% of your money in tech stocks, 25% in financial stocks, 25% in retail, 25% in basic industry, and 25% in retail or e-commerce.

The advantage of investing in different sectors is that it can limit risks. The disadvantage is that it can limit growth. Even Warren Buffett admits he missed out on big gains by not buying tech stocks earlier.

2. Strategy Diversification

Another popular diversification strategy is to buy growth, dividend, and value stocks at the same time. For example, placing 25% of your portfolio in dividend stocks, 25% in value stocks, and 50% growth stocks. Dividend stocks offer income, value stocks offer safety, and growth stocks offer growth.

3. ETF Diversification

Exchanged-traded funds (ETFs) are the ultimate stock diversification tool. ETFs allow you to invest in commodities, including gold and stock indexes.

Warren Buffett recommends investors purchase S&P 500 ETFs for additional diversification. An S&P 500 ETF is the ultimate in diversification because the Standard & Poors 500 contains 500 American stocks.

4. International Diversification

Purchasing foreign stocks is another popular diversification method. Many investors will add a percentage of European or Chinese stocks to their portfolios. Many people buy foreign stocks because coronavirus proves the US economy is vulnerable to catastrophes.

Some people buy Chinese stocks because they offer growth, while European, Japanese, or British stocks offer stability. An advantage to Chinese and European stocks is that many Chinese and European stocks trade on US markets. Alibaba (NYSE: BABA) trades on the New York Stock Exchange, for instance.

Emerging markets (developing nations) offer growth and diversification at a higher risk. However, emerging market stocks can be hard to monitor and find information about.

Real estate investment trusts (REITs) are another popular diversification tool. A REIT is a company that purchases real estate and charges rent for it. Some investors like REITs because they invest in real estate and pay high dividends. REITs trade on the stock exchanges, but they are exposed to the risks of the real estate market.

How to Practice Portfolio Management

Understanding portfolios is vital to successful investing. The best way to learn portfolios is to practice portfolio management by creating imaginary portfolios and tracking their performance.

Creating an imaginary stock portfolio is easy. All you need to do is write down a list of stocks and track their performance. You can monitor the dividends or growth those stocks offer.

Creating a practice portfolio and managing it for a few months is one of the best ways to learn portfolio management. Learning how to build and manage a stock portfolio is a critical skill for investors. Learning and practicing that skill is one of the best ways to learn to invest.

The Knowledge You Need to Build a Stock Portfolio

Finally, A good way to understand stock market investing is to read the best stock market investing books such as Benjamin Graham's *Intelligent Investor*, *The Little Book that Still Beats the Market*, *or How to Make Money in Stocks*.

Other great ways to build your knowledge with more up-to.-date market-relevant information is to read some of the Best Financial, Investing & Stocks Magazines such as *The Wall Street Journal*, *The Financial Times*, or *The Economist*.

Are You Looking For Stock Investing & Trading Software? Here Are My Favorites.

My favorite **software for trading** is TradingView because it does everything well. It has backtesting, great charts, stock screening, and an active community of over 3 million people sharing ideas, plus a free plan available globally.

My favorite **software for investing** is Stock Rover, as it specializes in deep fundamental financial screening, research, and portfolio management. It is the ideal platform for dividend, value, and growth investing.

My favorite **software for stock market news** is Benzinga Pro, with its super-fast real-time news engine, squawk box, and news impact ratings.

My favorite **AI trading software** is TrendSpider which enables automatic pattern recognition for Trendlines, Candlesticks, and Fibonacci levels. Trade Ideas uses AI to generate high probability daily trading signals for auto-trading.

My favorite **stock-picking service** is Motley Fool Stock Advisor, which has a proven track record of beating the market with excellent stock research reports.

Read the Full Top 10 Stock Market Software Testing & Review

Further Reading

- How to Find High Dividend Yield Stocks [3 Strategies]
- The 39 Value Stock Screener Criteria Critical To Success
- Top 3 Best Value Investing Stock Screeners

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No Chart Pattern works out the way we think it should every time, so it is vitally important to have a protective Stop-Loss and/or Exit strategy planned before entering into a Trade. Do your own research and testing before attempting any new technique. To properly utilize this tool, you must do enough thorough testing on your own to be satisfied with the results, and how those results will affect your personal Trading and Risk Management, before making any trading decisions.

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