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Concentrated Portfolio (5-15 stocks) vs Diversified Portfolio (15+ stocks).

Which one is suitable for you?

A detailed thread
(1/15)

@contrarianEPS

Concentrated portfolio
“The way to become rich is to put all your eggs in one basket and then watch that basket”-Andrew Carnegie

Here one keeps less than 15 stocks or even less than 10 stocks. So, your position in each holding is high (maybe even in double digit for few)
(2/15)

So, when you are right about your business, you make a killing even at portfolio level.

For example, Ten baggers on 1% position moves your total portfolio by only 9% whereas the same Ten bagger on your 10% position would almost double your portfolio (90% return).

(3/15)

So, to create wealth, concentration is the only way.

If we look Forbes Billionaire list (Jeff Bezos, Elon Mask, Bill Gates etc), most of them have reached the top by holding only one stock (Amazon, Tesla, Microsoft etc) which has appreciated multiple times over time.

(4/15)

Diversified Portfolio:
“Don't put all your eggs in one basket”

Here One keeps 15+ stocks and in some cases in may go to 40-50 also (will be discussed later).

The advantage is you lose less in portfolio level when you are wrong.
(5/15)

Now what should you do. We shall discuss some thumb rules here which are applicable for majority of investors. These are not mandatory and each individual may have their own style

(6/15)

1. If your investing experience is less than 5 years, keep a diversified portfolio of 20-30 stocks. The reason is simple, without experience one makes mistakes. In a raging bull market, no one would realize that.

(7/15)

But paper profits just get disappeared in a matter of few months (Just remember 2018). Everyone is feeling like a genius but mistakes of bull market are seen only in bear market. Effect of mistake on a 4% position is far less than a 14% position.

(8/15)

Exception: If you are a decadal investor with very high-quality coffee can type portfolio (longevity of competitive advantage is well established) and looking for a low teen compounding, you may keep less than 15 stocks

(9/15)

2. For savvy investors with 10+ years of serious experience, it is the time create wealth.

So when opportunities are found, you load up truck. 2-3 big winners with right position sizing can create massive wealth.

(10/15)

3. For a microcap investor looking for hidden gems, diversification is the only hedge. No matter how good you are, if you are looking for undiscovered ideas, there will be lot of mistakes.

But here 3-4 winners out of 10 ideas are sufficient because winners are very big
(11/15)

But diversification is the key here and holding 40+ stocks is not a crime. Let us hear it from the legend himself @hiddengemsindia

https://t.co/sicJlMlcYQ

(12/15)

Personally, I prefer to keep 85% portfolio in 20 stocks and rest 15% are tracking position which I average up only when business dynamics keep going in proper direction.

(13/15)

Last but not least, at no point of time number of stock holdings in portfolio should be more than you can track.

This depends on how much time you can allocate in investing.
(14/15)

If one is new to market with a busy daily job schedule and can track only 10 stocks. He may keep 65% of your portfolio in MF (index fund or active fund) and 3-4% in each of 10 stocks.

With experience one can shift MF portfolio into direct stocks slowly. (15/15)