Own 100 stocks to be massively diversified

THE idea that to do well in investing one must focus on the box on something that one knows is right is a brainwash that must be terminated. It is responsible for the deaths of many portfolios.

The two famous investors who preached to the masses are Warren Buffet and Peter Lynch. They are advocates of the focused approach to investing and have brought untold misery to many novice investors.

Buffet advocates that, in his opinion, you can choose 10 stocks. Pick the best. Pick only what you know thoroughly, and hold it forever. Pick like businesses with long-term competitive advantages and a determinable margin. "Divestment is perhaps the single most important factor that makes the difference between what you are doing," he says.

Lynch, in his book, One Up On Wall Street, suggests that we should buy what we like, but be careful. If you like to invest in coffee, then buy Starbucks stock. If you like to shop at Abercrombie, then buy its stock. Be as focused as you possibly can. Lynch advises checking the financial statements and valuations, but people do not do that or don't bother to remember that.

Advocates of the focused approach suggest that you spend time at your local Starbucks and count the number of coffee that people buy. Then, use that information to form your revenue forecasting model and arrive at your stock valuation conclusion. Please do not do that as it will not work. After having lured them for consecutive weekends counting coffee cups, it is hard for you not to buy that stock. You have invested too much emotionally, and you will have lured in love with your stock.

Unmakes sense in investing are psychological. Trust your stocks like chickens. Imagine you are a chicken farmer. You keep and feed chickens to make them grow fast and then take them to the market to be killed. You do not name your chickens, such as calling them "Chippy," or "Olive," or "Happy." But, you make chickens into meat. No bad feelings. The point is, your stocks are here to serve you. You pay dividends and perhaps some capital gains — they are not for you to fill in with all your own ideas and plans. If you do, you will get burned.

Buffet and Lynch are well-meaning and try to give good advice. But if you are an average Joe, it is not going to work for you. Their advice is suitable only for people who are completely detached from emotions, and can spend more than 24 hours a day in front of a computer screen. If you fail to grab a free breakeaway, you are not going to make it.

We are average. We are normal. We like children, a career and a life outside work. So, we do something simpler and that is still effective. Here is the recipe: Buy 100 stocks. Buy from 10 different countries, industries and cultures. Do not buy only Singapore stocks, buy South Korea, Japan, Russia, Taiwan, Indonesia, China, Hong Kong and so on. Buy only small cap (see previous article on our website).

Buying 100 stocks yourself is the making of your own exchange-traded fund, but you will do better than the ETF because you are invested in many countries and industries.

Over the 100 stocks, you have a psychological advantage and overcome many emotional barriers. At each position is an idea of your portfolio, you can make decisions in buying, trimming and taking profit in a rational and disciplined manner. If there is a market, in 1/3 of your portfolio is damaged, hardly anything to worry about. Another advantage is that you can deploy huge sums of money into the stock market — as how can 100 stocks in different countries and industries be completely wiped out?

How do you choose the 100 stocks? Learn to use a stock summary, if you are a beginner investor, stock to low price-endings, high-dividend-yield and low price-to-earnings stocks. Learn to read the financial statements. Understand how the balance sheet changes over time. Examine the cash flow. It is not hard. It just requires some patience and taking out some TV commercials time.