How Many Stocks Should You Own?

Investors spend a lot of time talking about diversification. But diversification, in itself, isn't good or bad. What matters is how many stocks you own and whether those positions support your goals as an investor.

In my experience, there are three things worth considering.

First, surviving the difficult times.

The most important thing is to stay in the game. No single position should be large enough to take you out or cause you to make emotional decisions when things go wrong. Even the best investors get things wrong, sometimes badly. I certainly have, and your portfolio needs to account for that possibility.

Second, cast a wide enough net.

You want enough positions to expose yourself to the possibility of great things happening. Exceptional investments are hard to find, and many times the biggest winners come from places you least expect. Owning too few stocks can mean missing opportunities that could have made a real difference.

Third, make positions large enough to matter.

It's not enough to find great investments, you need to own enough of them for being right to make a difference. A 1% position that goes up 10x isn’t going to change your life. A 5% position that does the same certainly could. In my experience this is the sweet spot - initiating positions at a mid to high single digit percentage weight - combined with having a willingness to let them run.

The goal isn't to own as many stocks as possible or as few as possible. It's to own enough to manage risk and give yourself plenty of opportunities, while keeping your best ideas large enough to make a difference when you're right.