Stock Musings from TheFranklyFour.com

Investment shoots and ladders (sent 5/11/21)

Your investment portfolio could be way up or way down this year depending on the stocks or funds you own. If all your money is in an S&P 500 index fund, like Vanguard's VOO, you're up over 13% year-to-date (YTD). Not bad at all. The S&P 500 tracks the 500 largest companies listed on US stock exchanges. However, if your portfolio is filled with small technology and growth-style companies you are probably down for the year and maybe by a lot. For example two of my favorite software development companies, Appian (APPN) and Unity (U), are down 39% and 43% respectively YTD. Even companies like Teledoc (TDOC) and Zoom (ZM) that grew phenomenally during the pandemic are down 30% and 20% respectively. Ouch.

Diversification helps smooth stock market volatility. This means owning stocks or index funds in several industries and a mix of large steady companies along with some mid- and small-cap companies that are more volatile but could grow more in the long-run.

I ran some calculations on my own portfolio to test the value of diversification. I own a lot of stocks. Often not much of each but I enjoy learning about new companies and the best incentive to learn is to have some skin in the game. Bear with me here.

Sixty percent of my individual stocks are down since January 1, 2021. Over a quarter of my stocks are down 20% or more with a few down over 50%. So how is it that my total portfolio of individual stocks is only down 10%?

Small growth stocks: First of all, the stocks that are down the most are generally the ones that rose the most during 2020, the year of pandemic craziness. For example, TDOC was up over 140% in 2020. So being down 30% hurts but it is still up since last year and WAY up from when I bought it a couple years ago. I invest in many small- and mid-cap growth stocks because they offer potential for great returns but I keep the allocations small because they can drop frequently.

Large growth stocks: These stocks provide some ballast for my portfolio but still tend to appreciate faster than the S&P 500. Stocks like Alphabet (Google, GOOG), up 38%, and Microsoft (MSFT), up 14% are among my largest holdings and have beaten the S&P 500 YTD.

Large value-type stocks: These companies are not fast growing technology innovators but tend to do well when tech stocks fall. My best performing stocks this year, aside from Alphabet, are Home Depot (HD), J.P. Morgan Chase (JPM), Berkshire Hathaway (BERK.B), and Waste Management (WM). Good luck getting anyone excited about these companies at a dinner party. I am excited since they are all up over 25%, double the S&P 500, plus dividends.

At this point in my life large value companies are a small part of my portfolio because I’d rather have the higher gains common to innovative companies than stability. However, having a foundation of these and other large companies helps me sleep at night. And, it is nice to see some green numbers in my brokerage account when everything else is red.