



Brainy's Articles on Share Trading**

Portfolio construction

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page 1 of 4
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Introduction

The topic of *portfolio construction* is often glossed over by many investors and traders. Perhaps it is seen as too hard, or too complex, or perhaps unnecessary. However, with an understanding of the subject we can be more in control of our future, and head towards a better quality collection of portfolio elements with a better management plan.

This Article in Brainy's series on Share Trading and Investing (number ST-6202) provides an insight into the subject of portfolio construction, and dwells on some aspects for the benefit of share market investors and traders.

Overview

A complete discussion of the subject of *portfolio construction* should at least include all of the following topics (and more):

- Asset allocation including: cash, equities, bonds, property, fixed income and managed funds.
- Sector allocation — whether we should or not, and how to do it.
- Appropriate diversification — amongst asset classes, sectors, etc.
- Investing risk profile and risk tolerance.

Other considerations might include the following topics:

- Your degree of comfort and understanding of the chosen instruments for your portfolio.
- Consideration of overseas equities versus local equities.
- An understanding of the implications of a conservative versus aggressive approach.
- A consideration of periodic portfolio rebalancing.
- Fine tuning considerations for equity investments regarding company size (market cap) and relative share prices.

There is discussion on these topics, and more, in the following pages.

Word of warning

At this point in the discussion it is worth explaining why you might find many different, and somewhat conflicting, views about *portfolio construction*. Consider the following brief discussion.

There are many people in the finance industry who are trying to make a living out of helping you to achieve your financial goals. This is what they tell you. The honest to goodness truth is that at the end of the day, many of them care more about their own take-home pay than your financial well-being. Of course, they will be pleased if you are happy about reaching your own financial goals; but they won't be able to help you much if you fail you achieve your goals.

There are many different ways to achieve the same financial objective. But exactly what is your financial objective? In overly simplistic terms it could be any or all of the following six points:

- To have enough money in the **short term** to cover specific expenses.
- To have enough money in the **longer term** to cover specific expenses.
- To have enough money, **plus more** for discretionary expenditure.

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** - The two words *trading* and *investing* are often used somewhat interchangeably.



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