Getting Started with A $10,000 Stock Portfolio
By Bruce Kaser, Chief Analyst, Cabot Undervalued Stocks Advisor

Congratulations! You’ve saved up $10,000 over and above your emergency savings—yes, you should keep your emergency savings in cash, separate from your stocks—and now you’re ready to begin investing in the stock market.

You are aware that you can put that money into mutual funds and exchange-traded funds (ETFs), but you enjoy the idea of the stock market enough that you’d like to try your hand at owning stocks. Great idea! Here’s my advice on how to proceed.

You’ve heard that investing in stocks can be risky; that you can literally lose all of the money in your $10,000 stock portfolio! True, but that rarely happens. So I’m going to show you how to lower your potential risk so that you can best enjoy your investing experience.

How To Set Up Your $10,000 Stock Portfolio

Buy stocks of famous companies.

Big famous companies’ stocks are generally less volatile than small companies’ stocks.

Volatility is scary!

You might own shares in a very healthy, growing company, but the share price can fall 20% fairly easily during a normal stock market correction. When that happens, it helps to know that you own a piece of Apple Inc. (AAPL) or FedEx Corp. (FDX). You can remind yourself, FedEx is not going out of business. The delivery guy is literally parked on my street right now!

Every successful stock investor understands that stocks bounce around, and that the bouncing usually does not reflect trouble at the company. If you can get past that emotional hurdle, and resist any urge to worry during the declines, you’re going to do well in the stock market and your $10,000 stock portfolio will grow.

Make sure the companies you select are expected to see their profits rise both this year and next year.

Sounds a little bit like voodoo, right? How can you possibly know what will happen in the future?

Fortunately, Wall Street analysts spend their entire days studying Nike’s (NKE) and Apple’s business operations and balance sheets. They are relatively accurate at telling investors how the profit situations look for those companies, several years into the future.

Profits are commonly discussed as earnings per share (EPS). For example, if a company is expected to earn $1.26 in 2018 EPS, that literally means that the company will earn $1.26 profit this year for every
single share of the company's stock. In reality, the profit number could be in the hundreds of millions of dollars, or even billions of dollars. But investors go right to EPS so that the number is clear, simple and comparable to other stocks.

There are many websites that tell you the expected EPS numbers. Do an internet search, ask a friend, or call your brokerage firm to ask their representative how to look up those numbers.

There are many other ways to measure companies and stock success. You have your whole life ahead of you to learn those things. If your goal is to see your stocks rise while eliminating some of the very biggest risks in the stock market, EPS is the linchpin to getting you to the goal.

**Divide your money up evenly into four or five stocks from different industries and sectors.**

If you buy five technology stocks, and technology stocks proceed to have a bad year in the market, you’re not going to have a pleasant investing experience.

Let’s eliminate that risk by selecting stocks from a variety of walks of life.

Here’s a random assortment of famous companies that represent a diversified stock portfolio: Microsoft (MSFT), PepsiCo (PEP), Chevron (CVX), Nike and JPMorgan Chase (JPM). And here’s who not to do: Intel (INTC), Apple, Microsoft, Micron Technology (MU) and Oracle (ORCL). No matter how well those five technology companies are performing from the perspective of revenue and profits, the stock market can easily go through a phase where technology stocks fall and underperform for many months, and that goes for any single sector, too. That’s what we’re avoiding by diversifying your stocks.

**Resist the urge to trade your stocks.**

The stock market and all of its nuances are as complicated as any other new subject that you decide to study, e.g. cooking, engineering or psychology. You are too new at stock investing to have any sense of when and why to buy and sell, so just don’t do it. Remember, you’re buying shares of famous companies.

Those companies are not going out of business! Their share prices will probably rise if you hold them for several years ... or decades.

When you divide your $10,000 among four or five stocks, you’re going to end up with disparate numbers of shares of each stock, e.g. 16 shares of one stock and 80 shares of another stock. The number of shares doesn’t matter. The dollar amount matters. Again, we’re lowering risk by not placing big bets on one stock over another.

**When you have additional cash to invest, add to the stock with the lowest value.**

If three of your stocks rose, one stayed about the same, and one fell, then you buy more shares of the one that fell. That’s because its share price is on sale today. Your goal is to keep those five stocks at relatively even dollar values as the months and years progress.
Here’s the most important reason to sell.

You’re going to look at the earnings estimates periodically, maybe once every three months or so. If you notice that one of the companies is expected to see profits stop growing, you are going to sell that stock.

For example, one year McDonald's (MCD) delivered $6.66 EPS. Analysts then expected the company to report EPS of $7.68 and $8.25 the following two years. Great! Earnings per share are growing.

However, if you went to examine the actual numbers in that last year, you would see that its number has changed to $7.70, which was bad news—it means earnings growth had come to a halt.

You don’t wait until the year arrives when your stock begins reporting flat profits. By then all of the professional investors have become disappointed in the company’s prospects, and enough of them have sold that they will have put a lid on the share price. You sell before everybody else learns of the disappointing numbers.

To Recap:

• Make a list of famous companies. It’s okay to have 30 stocks on that list.

• Look up Wall Street’s earnings per share (EPS) estimates for those companies.

• Cross companies off your list that are not experiencing EPS growth. • Pick four or five of the remaining companies that represent various industries and sectors to keep in your $10,000 stock portfolio.

• Invest equal dollar amounts in each of those companies’ stocks.

• When you have more money to invest, buy more shares of the company that has the lowest dollar value in your portfolio. (It’s also okay to add another stock to your portfolio).

• Monitor the profit outlooks for your companies. Sell when profits stop growing.

This is going to be an exciting and profitable experience! I wish you the best of luck, profit and peace with your stock investing.
About the Expert

Bruce Kaser has more than 25 years of value investing experience in managing institutional portfolios, mutual funds and private client accounts. He has led two successful investment platform turnarounds, co-founded an investment management firm, and was principal of a $3 billion (AUM) employee-owned investment management company.

Previously, he led the event-driven small/midcap strategy for Ironwood Investment Management and was Senior Portfolio Manager with RBC Global Asset Management where he co-managed the $1 billion value/core equity platform for over a decade. He earned his MBA degree in finance and international business from the University of Chicago and earned a Bachelor of Science in finance, with honors, from Miami University (Ohio).