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The Value of Diversification **January 19, 2018**

It's not always easy to grasp the value of diversification – why, in other words, it's better to own many stocks inside a mutual fund than to own one or two stocks on their own. However, recent research conducted by Arizona State University finance professor Hendrik Bessembinder offers some insight.

Bessembinder is not afraid of numbers. He calculated every one month return of every U.S. common stock traded on the New York and American Stock exchanges and the Nasdaq exchange, since 1926. Even though nearly half of the 25,782 stocks that have been in existence over this time period lasted 7 or fewer years, this still accounted for 2,524,849 individual monthly returns from July 1926 through December 2015.

What did Bessembinder find? Among other things, only 4% of the listed stocks accounted for *the entire lifetime dollar wealth creation of the U.S. stock market since 1926.* In other words, all the market returns came from only 86 top-performing stocks out of nearly 26,000. If you owned some of those stocks, mixed with the vast majority of stocks whose companies underperformed or went out of business, you got decent returns. If you decided you could pick your own handful of stocks, there is an almost overwhelming chance that you would have missed out on the small number of winners.

Source:

https://www.marketwatch.com/story/why-picking-stocks-is-only-slightly-better-than-playing-the-lottery-2017-06-28?link=sfmw_tw