# *Investment securities markets do not pay you for the risks of holding individual common stocks and bonds*

**Category : Investment Asset Diversification Articles -- Reducing Your Portfolio Risk**

**Published by** The Skilled Investor on Jul/13/2005

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Summary: Individual investors should get out of the active management business and hold passively managed broad-based market index mutual funds and exchange-traded funds. On average, the markets will not pay you for the undiversified risks of holding individual common stocks and fixed income securities. Your financial future is tied to your total portfolio of assets, and the quality of your portfolio is what counts. If you have more than one asset, you have a portfolio, whether you know it or not and whether you manage it as a portfolio or not. Individual investors buy securities they hope will enable them to “beat the market.” For most, these efforts will meet with failure. Individuals are simply lousy managers of investment portfolios. In addition, most of the minority who “succeed” in the short-term will do so because of luck and not skill. They take on unnecessarily high investment risk for returns that trail the market. They would be better off and would save significantly on expenses, taxes, and time, if they held a portfolio of low-cost, passive market index securities. Then, they could go on with the rest of their lives and shed much of the unproductive busy-work that is associated with investment activities of most people. Most individual investors seem not to understand that securities markets only pay a risk premium to hold the market portfolio. On average, it does not pay investors to hold more risky “beat the market” subsets of the market portfolio. Across all investors, different returns on these subsets of the market portfolio will cancel each other leaving only the market return. Unfortunately, holding an actively managed subset of the market is more costly and this tends to drag down returns.

This section of The Skilled Investor provides important information to investors on the value of being broadly diversified. These related articles may also be useful to you: ->What is investment portfolio diversification? ->Why is diversification valuable to individual investors? ->What is a well-diversified portfolio? ->Is the average individual investor portfolio well diversified? ->Can a limited number of equities provide complete portfolio diversification? ->How many common stocks are needed for a well-diversified portfolio? ->What is the cost to individual investors of sub-optimal portfolio diversification? ->How do changes in common stock price volatility affect diversification? ->How does the size of the common stock risk premium affect diversification? ->How many mutual funds are needed for a well-diversified portfolio? – evidence ->How many mutual funds are needed for a well-diversified portfolio? – a commentary