How crazy is it for a 26-year-old to have 100% equities in their portfolio?

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Question from Alex Ruppel, 26, of Toronto: How crazy is it - or not crazy - for a 26-year-old to have 100-per-cent equity exposure in their portfolio?

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Answer: While you're in your twenties and have 30-plus years until you need access to your retirement money, having most or all of your investments in the stock market is not crazy and can be appropriate. Equities provide a chance for greater returns over the long-term, compared to cash or fixed income investments, although they also have a higher risk of loss and more volatility.

Deciding what percentage of your portfolio should be in equities depends on your own investing goals, your level of knowledge, your tolerance for market fluctuations and the length of time before you'll need the money.

Your age plays a part, but there are other things to consider before investing. Here are four:

1. Know when you'll need the money and what for. Funds you could use in the next three or so years for things like a down payment or emergency fund, where you can not risk a drop in value, should be invested more conservatively. You might want to keep those in cash, perhaps a high-interest savings account or guaranteed investment certificates (GICs). Although they aren't going to earn high returns, the money will be there when you need it. Equities can take months to recover from a dip in the market, and you don't want to risk your savings dropping in value at the wrong time.

2. Know yourself as an investor and have an investment plan you can stick to. Successful investors expect highs and lows and are committed to staying invested for the long term. If you are new to investing or know that the ups and downs will keep you up at night, include other types of investments - such as fixed income, cash, or real estate. For example, perhaps start with 75- to 80-per-cent equities and 20- to 25-per-cent fixed income mix. There will still be risk and fluctuations, but when one type of investment falters, another may perform well.

3. Diversify within your equities portfolio. Own stocks from countries around the globe, as well as from various industries and different company sizes. The theory is that spreading your money across a variety of stocks reduces your risk because it's unlikely that they'll all perform the same way at the same time. It could be a challenge to diversify properly using individual stocks if you're starting out (and requires a large amount of research), so exchange-traded funds, index funds, or mutual funds can provide variety simply. Make sure you look at what type of stocks your equity funds hold – owning several funds that all have the same types of stocks doesn't provide the diversity you need.

4. Understand your investments. Take the time to learn which type of investments your funds hold, the funds' purpose (growth, income, preservation of capital), the potential risks and returns and what the fees are to buy, sell, and hold them.