M&G Insights

M&G Investments

Grayson Rainier
Marketing Manager
July 2022

What type of investor are you: The Risk Taker

In this article, part three of our five-part series on different types of investor profiles, we explore **the Risk Taker**: how they tend to behave when it comes to investing, and the main pitfalls that they should look out for and try to avoid. If this sounds like you, you may want to read more closely to see how you could improve your chances of success in reaching your investment goals.

Profile

Risk takers approach investing in much the same way that they approach life. They tend to be less long-term oriented and more focused on short-term gains. They thrive on seeing immediate results and hate to miss out on opportunities. Risk Takers want the highest returns possible and expect to be compensated for the risks that they take. Alternative investments, such as hedge funds and cryptocurrencies (which the South African Reserve Bank recently recognised as a financial product), usually feature in their investment portfolios, and they will no doubt have high levels of exposure to growth assets like equities. Risk Takers, however, are inherently prone to certain behavioural characteristics that, when left unchecked, can significantly erode their potential investment returns. Below we take a closer look at three of the main mistakes that these investor types tend to make and show how, with a little patience and self-restraint, these factors can be easily overcome.

1. Chasing the latest top performers

It's tempting to look at the recent short-term performance of certain markets or unit trust funds and be tempted to invest in them – with the expectation that you'll get the same type of returns going forward. But following this route is likely to leave you disappointed. Just because a particular fund may have outperformed the market in the past 12 months doesn't mean that it will repeat this performance over the next 12 months – market conditions change rapidly, and what was good positioning for a fund in the past could become terrible as the investment environment and sentiment evolve.

This has happened surprisingly often – last year's star performer has become this year's dog, as certain types of investment styles typically work better in certain phases of the economic cycle and less well in others.

That's why, when it comes to choosing a unit trust fund, you should ignore the latest performance rankings and instead choose your investment based on its alignment with your fundamental investment goals, time horizon and tolerance for risk. And when it comes to choosing a fund manager, it's a good idea to look for one whose funds have a solid **long-term** track record of **consistently** meeting their stated return and risk goals and generating above-market returns for their clients, rather than recording a few recent wins.
The key point here is that short-term performance should never be the main driver behind your investment decisions. In fact, chasing the latest performance often results in destroying value, which we'll discuss in more detail in the next section.

2. Switching at the wrong time

Switching between funds involves selling units out of one and buying units in another. Experienced investors typically try to buy units in a fund at the lowest price possible (usually when a fund is underperforming) and sell units at the highest price possible (usually when a fund is performing well). The concept here is relatively simple: buy low and sell high.

Risk Takers, however, often end up chasing past performance and typically end up doing exactly the opposite of the professionals. They sell underperforming investments (selling low) in order to switch into funds that are experiencing short-term outperformance (buying high). This type of investor behaviour can end up destroying value over time. In fact, numerous studies have shown how investors end up underperforming the market purely through poor investor behaviour. At M&G Investments, we encourage investors to resist the urge to switch, and simply stay in their chosen portfolios regardless of their fears of missing out or losing money. Unless your investment goals, time horizon or other investment fundamentals change, neither should your fund selection.

3. Being impatient

There's a well-known quote from Warren Buffett that goes: "*The stock market is a device for transferring money from the impatient to the patient*."

Most valuation-based managers like Mr Buffett will tell you that at the heart of their investment process is the notion of buying an asset that is trading below its market value and then waiting for the market to realise the value of that asset. This, however, requires patience, which is a key component of successful investing.

Equity markets are usually quite volatile over shorter periods, and investors can easily end up selling out of their investments at the wrong time. However, over time equity prices tend to increase in value, mitigating the effects of short-term volatility. That's not to say that investors can expect their performance to come in a straight line, but rather that the general progression of that line will tilt upwards in its trajectory the longer you remain invested. So although it might be tempting to chase the top performer, or to switch out of a fund that its experience some short-term underperformance, the better option is often to simply remain patient and stay the course.

In conclusion, while Risk Takers do have their advantages in that they tend to be more actively engaged with their investments, this level of engagement can be detrimental if it involves poor investment behaviour. Fortunately, with some self-restraint and patience, many of these factors can be overcome, increasing the probability of achieving greater long-term returns. The trick here is to think long-term and choose an asset manager that you can trust, like M&G Investments, to make your investment decisions on your behalf.

In our next article in this series, we will look at our third investor profile: The Balancer.

For more information on investing with M&G Investments, please feel free to contact our Client Services Team on 0860 105 775 or email us at info@mandg.co.za.