

Three different kinds of investors

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The Home Run Hitter – The Home Run Hitter is always going for the grand slam home run. He or she is a speculator who generally has little patience and therefore turns over a portfolio in a short time. This person is always looking to “make a killing” on an investment idea. Their portfolios tend to be highly volatile with investments that have great stories. Their hope is that a few of their ideas will be so fruitful, that they will more than offset their bad ideas.

The Singles & Doubles Hitter – The Singles & Doubles Hitter is less of a speculator than the Home Run Hitter. They try to make their return by having a lot of smaller gains with fewer losses. They are generally more conservative than their home run counterparts. Singles & doubles hitters often take their time analyzing an investment and need more than just a great story to commit to an investment.

The Person Who Doesn't Swing The Bat – The Person Who Doesn't Swing The Bat is generally very risk averse. They are uncomfortable with uncertainty and like knowing what their return will be. Often they are not comfortable with money and finances. Sleeping well at night without worry is very important to them.

Obviously, this is a tremendous oversimplification. When it comes to investing it is important to know what your investment style and risk tolerance are. Just make sure that your investment choices match your profile and that you feel comfortable with your choices. Here are several important questions to consider when thinking about your own investing style.

1. How comfortable do you feel about taking risks in your investments? Are you aware of the different kinds of risk? Several kinds of risk are as follows:
 - a. Market risk
 - b. Credit risk
 - c. Purchasing power risk
 - d. Interest rate risk

There are risks in every investment vehicle. Be sure that you are aware of and understand what the risks are when investing.

2. How much do you value certainty in an investment? How comfortable are you with volatility in an investment? Which of the five choices below do you feel most comfortable with?

Choice	Year 1	Year 2	Year 3	Year 4	Year 5	Average Annual Return
A	5%	5%	5%	5%	5%	5%
B	4%	7%	8%	2%	9%	6%
C	-5%	21%	8%	2%	9%	7%

D	9%	-11%	26%	3%	18%	9%
E	14%	-21%	40%	-4%	31%	12%

Your choice here should tell you about how comfortable you are with investment volatility vs. returns.

3. Which of the three choices is most important to you in choosing an investment?
 - a. Safety of investment principal
 - b. Amount of income the portfolio can generate
 - c. How quickly the portfolio increases in value

This is another investment “style” question in which there is no right answer.
4. How comfortable are you making decisions about investments? How much time are you willing to devote to educating yourself about various investments? If you are not comfortable investing yourself, then your choices are to use an investment professional or avoid investing.
5. What are your time horizons on your investments? When will you need to draw on investment funds? Will you be able to save additional amounts for investing? Your answers here will have a great impact on what types of investments you would consider. Funds that you will need in a short time period should be invested differently than funds that you will not need for many years.
6. Do you “go along with the crowd?” Do you tend to want what is popular at the moment? Or do you “follow your own path?” Do you seek out what you consider to be valuable even if it means going “against the crowd?” During that late nineties, “momentum” investing was very popular and produced excellent results. In today’s market, a more contrarian “value” approach seems to be producing better results.