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IN THIS ISSUE

Some investors take a steady, long-term approach like the tortoise, while others resemble the hawk - quick to act and adapt to market movements. Both strategies have value, but true success lies in aligning your investment style with your personal goals and risk tolerance.

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ARE YOU A TORTOISE OR A HAWK INVESTOR?

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Knowing your risk tolerance can help guide your investment strategy and avoid costly mistakes.

In the world of investing, understanding your risk profile is crucial. Just like animals in the wild, investors exhibit different traits and behaviours when it comes to taking on risk in their portfolios.

Whether you're a cautious tortoise or an aggressive lion, knowing your risk tolerance can help guide your investment strategy and avoid costly mistakes.

Here's a look at the four main types of investors, compared to their animal counterparts, along with the typical pitfalls they face.

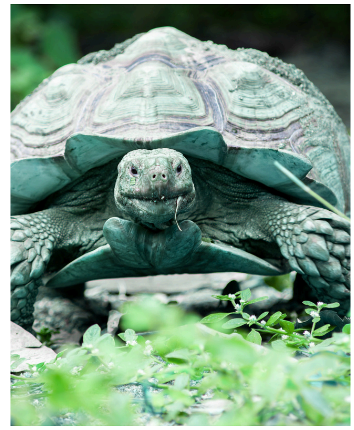
Are you a cautious tortoise, steadily building wealth over time, or a sharp-eyed hawk, scanning for opportunities and reacting quickly to market shifts?

Understanding your investor personality helps you make more aligned financial decisions - whether you're slow and steady or swift and strategic.

1. THE CONSERVATIVE INVESTOR – THE TORTOISE

RISK PROFILE: LOW RISK

Animal analogy: The tortoise, slow and steady, carefully navigating the world with caution.



Conservative investors are risk-averse and prefer to focus on preserving their capital rather than seeking high returns. Like the tortoise, they are patient and prefer stable, lower-volatility investments.

They often opt for blue-chip stocks, bonds and other fixed-income securities. Their main goal is to avoid losses, even if that means missing out on potentially higher returns.

PITFALLS:

- **Low returns:** While conservative investments provide safety, they often yield lower returns. The tortoise may win the race in the end, but slow growth can lead to missed opportunities, especially in a thriving market.
- **Inflation risk:** If conservative investors are too cautious, inflation may erode the purchasing power of their savings over time.
- **Underexposure to growth assets:** Conservative investors might shy away from equities or growth stocks, leading to missed opportunities for long-term wealth accumulation.

2. THE BALANCED INVESTOR – THE DEER

RISK PROFILE: MODERATE RISK

Animal analogy: The deer, alert and agile, with a balanced approach to danger and safety.

Balanced investors strike a middle ground between risk and reward. Like a deer, they are attuned to their surroundings and capable of quick adaptations. They often diversify their portfolios, holding a mix of equities, bonds and real estate. The goal is to achieve steady growth while limiting risk.
While they’re not afraid to take on some risk, they make sure their portfolio remains well-balanced to weather market fluctuations.

PITFALLS:

- **Over-diversification:** A too-diversified portfolio may spread risk too thin, leading to suboptimal returns. The deer might be so cautious in its attempts to avoid danger that it forgets to take advantage of its strengths. Read my earlier article about over-diversification.
- **Market timing:** Balanced investors may attempt to time the market and make changes to their portfolios based on short-term movements. This can be detrimental as they might miss out on long-term growth trends.
- **Emotional decision-making:** Balancing risk and reward requires discipline, and balanced investors may panic during market downturns, leading to rash decisions like selling low or holding on to underperforming assets for too long.

3. THE AGGRESSIVE INVESTOR – THE LION

RISK PROFILE: HIGH RISK

Animal analogy: The lion, bold and fearless, is always on the hunt for its next big opportunity.

Aggressive investors are willing to take significant risks in exchange for the potential for high returns. They are like lions, constantly on the hunt for opportunities that will provide great rewards. They typically focus on growth stocks, emerging markets and more speculative investments. Aggressive investors are confident, often embracing the volatility of the stock market and looking to capitalise on long-term trends.

PITFALLS:

- **High volatility:** The lion's aggressive approach can result in significant losses during market downturns. The pursuit of high returns can sometimes lead to overexposure to risky assets, causing severe portfolio declines when things go wrong.
- **Overconfidence:** An overly aggressive investor might develop an overconfidence bias, believing they can time the market or pick stocks that will outperform the market. This can lead to poor decision making and missed opportunities for safer, long-term growth.
- **Chasing returns:** Lions often focus on the next big thing, chasing trends and short-term gains. This can result in buying high and selling low, ultimately causing losses as the market corrects itself.

4. THE SPECULATIVE INVESTOR – THE HAWK

RISK PROFILE: VERY HIGH RISK

Animal analogy: The hawk, soaring high above the ground, searching for small, specific opportunities from above.

Speculative investors are the most adventurous in terms of risk. They are willing to take on extreme levels of risk for the possibility of exceptional returns. Much like a hawk, they have a sharp focus on specific opportunities, such as startups, cryptocurrency, or high-volatility stocks, that might offer extraordinary gains. These investors are highly active, closely monitoring market trends and making bold moves to capitalise on the next big opportunity.

PITFALLS:

- **Loss of capital:** The hawk's focus on high-risk opportunities can result in catastrophic losses. Speculative investments often come with the risk of complete capital loss, particularly in volatile sectors like crypto or tech startups.
- **Chasing hot tips:** Speculative investors are prone to following trends or tips without fully understanding the underlying investment. This can result in hasty decisions based on hype, leading to eventual disappointment when investments fail to deliver.
- **Overleveraging:** The pursuit of high rewards can sometimes lead speculative investors to borrow money or use leverage to increase their exposure to risky assets. This can amplify both gains and losses, sometimes to the point of financial ruin.

CONCLUSION: KNOW YOUR ANIMAL INSTINCTS

Just as every animal has its strengths and weaknesses, so do different types of investors. The key to successful investing is recognising your risk profile and tailoring your investment strategy to match your natural tendencies.

- **If you're the cautious tortoise, focus on safe, reliable investments that provide steady growth over time.**
- **If you're the deer, take a balanced approach to ensure you're poised to take advantage of market opportunities while mitigating risk.**
- **If you're the lion, embrace the growth potential of high-risk investments, but be prepared for volatility.**
- **If you're the hawk, always keep a sharp eye on the horizon, but be mindful of the dangers of chasing after every fleeting opportunity.**

Ultimately, the most successful investors are those who know themselves, understand their risk tolerance and have the discipline to stick to a strategy that aligns with their long-term financial goals.

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I joined the Brenthurst Wealth team in April 2021 as a financial advisor under direct supervision. I obtained my BCom (Hons) in Management Accounting from the University of South Africa (UNISA) and have been working in the finance industry for over 10 years.

I am registered with SAIPA as a Professional Accountant and Tax Practitioner. I completed my Class of Business and Postgraduate Diploma in Financial Planning through the University of the Free State. I am a CERTIFIED FINANCIAL PLANNER® professional, a member of the Financial Planning Institute of SA and am fully qualified to give advice on all investment matters.

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