

3

12 questions to ask before investing

What is my risk tolerance?

"To be a successful business owner and investor, you have to be emotionally neutral to winning and losing. Winning and losing are just part of the game." - Robert Kiyosaki

Q: How would you feel if you invested GHC 1,000 for 5 years, but realized that after the first year the value was GHC 900 (a drop of 10%)?



Very concerned.
Withdraw everything.



Concerned.
But will not withdraw.



Not too concerned.
In it for the long term

What type of investor are you?

Everyone is exposed to some risk everyday – whether it is from driving, operating an appliance or simply completing a task. In investment, risk describes the possibility that the return on an investment will be different from what is expected and includes the potential of losing some or all of your original investment. Just as we react to life's occurrences differently, an investor's personality, experiences and knowledge can inform how much risk he or she can take in investing.

	 TYPE A	 TYPE B	 TYPE C
Risk Tolerance	LOW	MEDIUM	HIGH
Investor sentiments	Closely monitors investment. Unable to stomach a lot of volatility (up and down movement) and panics whenever there is a drop in prices.	Knows he/she is in for the long term but still monitors the investment. When there is a drop in prices, Type B naturally gets concerned but tries to ignore minor losses to focus on the larger picture.	Definitely has eyes on the bigger, long-term picture. He/she is more concerned about how much can be gained over the long term versus the short-term fluctuations.

Investor tendencies	Withdraw the investment or sell shares when prices drop.	Stay invested but monitor investments closely.	Will stay invested with confidence because he/she is invested for the long term and is aware that investments can go up and down.
Ideal investment instruments	<ul style="list-style-type: none"> • Treasury Bills • Bonds • Fixed income mutual funds (e.g., MFund, EdIFund Tier 1) 	<ul style="list-style-type: none"> • Treasury Bills • Bonds • Fixed income mutual funds (e.g., MFund, EdIFund Tier 1) • Balanced mutual funds (e.g., BFund, ArkFund, EdIFund Tier 2) 	<ul style="list-style-type: none"> • Treasury Bills • Bonds • Fixed income mutual funds (e.g., MFund, EdIFund Tier 1) • Balanced mutual funds (e.g., BFund, ArkFund, EdIFund Tier 2) • Equity mutual funds (e.g., Epack) • Shares

Be true to yourself

When you invest, you naturally expect to grow your money. But many investments, like mutual funds, do not give guaranteed returns. Moreover, some investments have higher risk than others – equity has a higher risk than fixed income – and investors should be wary of this. You must be honest about how much risk you can take on as an investor. Sometimes, investors claim they have a high risk tolerance until their investment starts to decline, then they quickly realize their risk tolerance is quite low.

Your risk tolerance may change overtime and can either move from low to high or high to low. The change can be influenced by an increase in your level of investment knowledge, changes in the industry or broader economy or simply a change in your investment goal or life situation. As such the importance of matching your risk tolerance to the right investment product cannot be overemphasized. In our next article, we will discuss the risk profile of investments into detail.

If you would like to speak to a financial advisor to help make the right investment decision, call us on **0302 610610**. You can also visit www.databankgroup.com for more information on choosing an investment.

Invest wisely. Invest with Databank.

