Why your risk profile can make or break your success as an investor

You invested your startup capital of GHC 10,000 with an investment bank last year. The plan was to keep it there for at least 5 years to get some returns on the investment. It's been a year now since you made that investment. While watching the evening business news one night, you remember you haven't checked on your investments in a while. Surely, it must have grown by now. You pick your phone to check your balance and anxiously wait for it to load.

What you see is not what you were expecting: **Account Balance: GHC 9,000.** Could it be that you are seeing wrongly? You count the zeros again. But as you study your statement, you realize the money in your investment account has actually dropped by 10% (10,000 to 9,000).

The big question is: What will you do?

3 typical investor responses

1. You walk to your investment bank the next day and tell them: "Please I would like to withdraw all my money now. I don't think I can take it."
2. You are very concerned and contemplate withdrawing the money. You later reconsider since you are in it for 5 years, and decide you might as well wait it out. But you will definitely keep an eye on it.
3. You take a deep breath and say to yourself: "Okay, this happens. Let me relax and wait out all the 5 years. It will definitely pick up then."

Getting to know your risk tolerance

Every investor has what is called a risk tolerance. **Your risk tolerance is how you feel about the movements of your investment when it goes up and down**. As an investor, your risk tolerance will either be low, medium or high. Let's see how the scenarios above can help you diagnose your own risk profile.

- **Low risk tolerance.** If the prospect of your investment balance declining by even one pesewa keeps you up at night, you likely have a low risk tolerance. Having a low risk tolerance means you should opt for investment products that are fairly stable and do not move a lot, such as fixed income (e.g., MFund, Treasury bills, Bonds).
- **Medium risk tolerance.** If the ups and downs in your investment bother you a lot, but not enough to make you withdraw, your risk tolerance is said to be medium. In this case, it is

best to opt for mostly fixed income investments and some balanced investments, which will give you a small exposure to equities (i.e., stocks on the stock market). Examples of balanced funds include ArkFund and BFund.

- **High risk tolerance.** If you are okay with the ups and downs, knowing that over the long term you will likely gain more, your risk tolerance is high. This means you can increase the amount of equity investments that you add to your portfolio. One example is Epack, which invests 80% of the money it manages into stocks on various stock exchanges across Africa.

Matching your investments to your risk tolerance

There are two important considerations when trying to decide which investment is best for you. One is the ***time frame*** you have to invest and the other is your ***risk tolerance***. One important key to success as an investor is to match your investments to your risk tolerance. The table below shows a range of investments you can select from depending on your risk tolerance or how much time you have to invest.

	Time Frame		
Risk Tolerance:	Less than 2 years	Between 3 - 5years	More than 5 years
Low	MFund EdIFund Tier 1 Treasury Bills	MFund EdIFund Tier 1 Treasury Bills Bonds	MFund EdIFund Tier 1 Treasury Bills Bonds
Medium	MFund EdIFund Tier 1 Treasury Bills	MFund EdIFund Tier 1 Treasury Bills Bonds BFund ArkFund EdIFund Tier 2	MFund EdIFund Tier 1 Treasury Bills Bonds BFund ArkFund EdIFund Tier 2
High	MFund EdIFund Tier 1 Treasury Bills	MFund EdIFund Tier 1 Treasury Bills Bonds BFund ArkFund EdIFund Tier 2 Stocks	MFund EdIFund Tier 1 Treasury Bills Bonds BFund ArkFund EdIFund Tier 2 Epack Stocks

It is important to note that your risk profile can change over time – it can go from low to high as you move from being a new investor to a more sophisticated one; it can also go from high to low depending on events such as a financial crisis, change in your financial situation, etc.

Remember, not every investment is for you, and there's nothing wrong with that. Make sure you match your investments with your risk tolerance A licensed advisor at Databank can help you confirm your risk tolerance and ensure you have the appropriate mix of investments to match your risk tolerance. Contact Databank on **0302 610610** or by email at info@databankgroup.com.

Invest wisely. Invest with Databank.