Insights into three categories of investors

Understanding each type of investor at your bank or credit union may lend clarity during periodic market volatility.

When helping your investment program's clients map their financial future, the path to accomplishing their financial goals depends on where they are, where they're going and their overall personality. Investing, like climbing a mountain, is a journey each client approaches differently. In many cases, your clients will fall into one of three categories – **Speculators, Traders and Long-Term Investors.**

For the vast majority, the long-term investors' approach has historically proven most successful. Unfortunately, most popular media outlets have a short-term focus and deliver opinions for traders or speculators. This can create confusion for long-term investors and spur action at the wrong time.

For long-term investors, understanding each approach along with its pros and cons may lend clarity to periodic market volatility and hopefully influence portfolio moves in a positive way.

The Speculator (aka The Thrill-Seeker)

- Speculators tend to seek high returns in acceptance of higher risk.
- They are less diversified, with concentrated bets in individual securities, and may even take positions with borrowed funds.
- Normal market fluctuations can inflict dire results on speculators' portfolios, and small fluctuations, those fully acceptable to long-term investors, can create major problems.
- Just as cascading snow may turn into an avalanche, normal (even small) market fluctuations can be grave since this group employs leverage to move in and out of positions.

The Trader (aka The Risk-Taker)

- Traders seek to take advantage of short-term market gyrations to generate short-term profits.
- Their holding period is likely much shorter than long-term investors' as they enter and leave the market rapidly, seeking to trade with the "trend" up or down.
- The short-term focus of these traders can accelerate the downside over the short term.

- A tendency to act to preserve capital in weak markets and a short-term focus cause even normal market fluctuations to have a negative impact on traders' portfolios.

The Long-Term Investor (aka The Scout)

- Long-term investors are in it for the long haul.
- The odds of success for this group are high over a long period, as has been the case throughout history.
- These investors have diversified portfolios that help manage risk and avoid the need to jump in and out of the market at every negative headline.
- They understand that over a long period the markets will experience ups and downs, including recessions and bear markets.
- They would like to avoid the down moves, but since their portfolios are diversified they have the ability to ride them out and make changes as needed, capitalizing on opportunities along the way.
- The belief that each up market will reach a level higher than the previous up market will be the catalyst for a generally growing portfolio over time.

A little bit of each

As you work with your existing investment program clients, as well as those newly referred from the retail side of your institution, you'll likely notice investors sometimes participate in all three categories. They will have a core long-term portfolio with small amounts allocated to more aggressive strategies. There is nothing wrong with this as long as they're aware of the risks and pay close attention to the amount allocated to such strategies. Additionally, they should only commit capital they are willing to risk to avoid disrupting their path to their long-term goals.

Volatility presents opportunity

For long-term stock investors, periods of volatility present a good time for you to reach out to your clients and perform a portfolio check-up. When markets decline, consider making strategic adjustments and take this time as an opportunity to plan for tax implications – if realized gains have been taken this year, look at positions with losses to determine if they should be realized.

Although each type of investor exhibits distinctive characteristics, they have at least one thing in common: They benefit from having you as their guide as they forge their path to financial independence.

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