



Does Your Personality Make You a Growth or Value Investor?

Description

While there are a wide range of investment styles in existence, perhaps the two most common and popular are growth and value investing. As is somewhat obvious from its name, growth investors usually focus on companies which offer the highest scope for rising profitability. While value investors may also decide to invest in the same companies as growth investors, they will only do so if the price is right.

Clearly, there are many investors who do not fit neatly into either category. However, investors seem to generally be biased to one or the other. And much of this could be down to personality traits.

Character traits

While there are always exceptions to every stereotype, generally growth investors take more risks than value investors. They tend to be less worried about the price they pay for a company's shares, and are more interested in the potential success of the growth strategy employed by the business.

In contrast, value investors tend to consider risk to a much greater extent. They are often concerned with a wide margin of safety and ensuring they are not paying too much for even the best company or the most enticing growth opportunity.

Decisions

Clearly, any individual can decide for themselves what type of investor they wish to be. It is possible for anyone to read up on a variety of investment styles, including growth and value, and come to an informed decision as to which is likely to be the most successful for them given their outlook, goals and stage in life.

As such, it could be argued that investors with a long-term timeframe who are seeking relatively high growth in return for even higher levels of volatility may be best suited to being a growth investor. Similarly, investors with less time to reverse any potential losses and who seek greater stability with their investments may prefer to adopt value investing methodologies.

Improving ability

However, the reality is that most investors will do what feels natural to them. While circumstances will dictate the length of a holding period and the required return, most investors will naturally gravitate over a period of time towards the style of investing which suits their personality the best.

This is generally a good move, since a major challenge of investing is persistence. All investors endure losses or even periods of losses, and persevering during those periods is a key part of being a successful investor.

Doing so is likely to be easier for an investor who understands the rationale for their decisions and, more importantly, has made decisions which they feel comfortable with. This can often lead to improved investment ability as well as a better understanding of the key drivers behind share prices. In the long run, this can equal gradual improvement in portfolio performance given any investment style or character traits.

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Date

2025/09/10

Date Created

2017/05/03

Author

motley-fool-staff

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