3 Strategies Followed by Millionaire Investors

Description

While there are a number of strategies that have been successfully employed by investors in a range of indices such as the S&P 500 and the FTSE 100, here are three that could be easy for any investor to adopt. Given that they have worked in the past for highly-successful investors, they have the potential to boost your portfolio returns in the long run.

Understand your investments

Peter Lynch delivered a 29% annualised return from 1977 to 1990, with his Fidelity Magellan fund easily outperforming the S&P 500. One of the key aspects of Lynch's investing style is to always understand the companies within your portfolio. For example, even if a stock seems to be cheap and has a strong balance sheet, understanding how it generates a profit remains key from an investment perspective.

This may sound like simple advice, but it could help an investor to avoid making major errors when buying and selling shares. Ultimately, there are always risks when it comes to investing, but minimising them through having a thorough understanding of the stocks in your portfolio could improve the overall risk/reward opportunity on offer.

Smaller company investing

While investing in major indices such as the S&P 500 or FTSE 100 can offer favourable risk/reward opportunities, smaller companies can deliver higher returns. That's why Jim Slater was able to generate impressive returns during his investment career, with his focus on earnings growth and valuation complementing a preference for smaller companies.

Clearly, smaller stocks can be riskier than their larger counterparts. They often have balance sheets that are less stable, while the loss of a key contract or customer can lead to greater financial pain in the short run. And with them generally being focused on a smaller geographical area, they may lack the diversity of their larger peers.

At the same time, though, small companies can deliver higher profit growth. They may also become more highly-rated if they are able to offer investors the promise of strong bottom-line increases in the long run. As a result, for less risk-averse investors, they could be of interest.

Ethical businesses

While ethical investing may not be an obvious choice for many investors, Charlie Munger is a proponent of the idea. He believes that a good business is an ethical business, and this could mean that investors should focus more on corporate governance in future. After all, a company with high standards of governance may be less risky than a stock that is less clear with its performance and outlook.

With the internet providing a wealth of information easily and without cost in many cases, it has never been simpler for investors to focus on corporate governance. In doing so, it may be possible to unearth potential risks with existing holdings, while being able to improve a portfolio's overall risk/reward ratio for the long term.

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