



Investing vs Speculating: A Short Guide

The growth of online trading platforms has made investments more accessible and democratic. Anyone can trade shares, or even buy cryptocurrency, with relatively small amounts of money. Trading accounts no longer require a stockbroker but can be managed using an intuitive app on your phone.

As well as trading shares, the internet allows us to trade information. Multiple online communities share knowledge, stock tips, and encouragement with new investors.

This takes us into unprecedented territory, as asset values are more tied into investor sentiment than ever. If Reddit decides that an unknown company is the next [GameStop](#), who actually decides what that company is worth?

The result is that if you can imagine it, you can probably invest in it. If enough people agree, you might even make money. But should you consider speculative investments for your portfolio?

Speculative Investments

Speculative investing means buying shares or other assets that are very high risk. The trade-off is that the potential rewards can be extremely lucrative.

A speculative investment may include:

- Private equity or small company shares
- Unregulated investments
- Cryptocurrency

Shares in general are not necessarily speculative, but the manner of trading can be. Buying a diversified portfolio of shares and holding for the long-term is not speculative. A strategy which involves daily trading and high concentrations in hot stocks probably is.

By their nature, speculative investments can fluctuate rapidly, and you may even lose money.

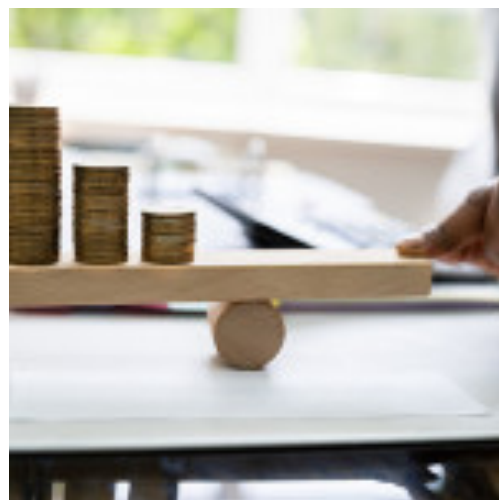
Purpose of the Investment

The best investment strategy will depend on your goals for the money.

If you are saving for a home, retirement, or to give your family a better future, speculative investments are not the answer, as you may lose the money you have worked hard to build up.

If you have surplus capital or income, your main financial goals are fully funded, and you can lose money without affecting your lifestyle, you might want to take your chances with a speculative investment.

You should only consider speculative investing if you could theoretically lose all of the money without causing yourself or your family financial hardship.





Risk and Reward

In finance, as in life, risk and reward are interlinked.

Anyone with experience of gambling understands this. Your 'odds' or potential for reward, reduce in proportion to your chance of winning.

Speculative investing works in the exact same way. The higher the promised riches, the more chance you have of losing your money.

Bitcoin is a classic example of a speculative investment. First of all, it has no tangible value, as it is simply worth what the market dictates. Early investors have made huge profits, but needed to be brave enough to buy in when crypto was thought to be a passing fad.

Later investors take the risk of buying at the peak of the market and losing money. Today, a single Bitcoin is worth around £27,000, having dropped from the high point of almost £45,000. As crypto is still fairly new and doesn't follow traditional economic cycles, we cannot say with confidence whether it will bounce back.

To profit from speculative investments, you need to buy what few other people want, and have confidence that demand (and therefore value) will increase.

Knowing When to Buy and Sell

Speculative investing is driven by the concept of buying low and selling high.

In practice, this is very difficult to predict. When an investment first becomes available, the price is low. But simply buying at a low price is not enough, as it needs to rise to make a profit.

If enough investors believe the investment has potential, demand will increase and the price will rise. But this creates another issue, as rising demand makes it more complicated to value the underlying assets. 'Selling high' becomes unachievable, except through luck, as the price could always rise further.

As sentiment turns and investors decide to sell their shares, this drives down the price. Again, the low point is only clear with hindsight, as the price could drop again.

To be successful, speculative investors need to have a deep understanding of their investments, nerves of steel, or a great deal of luck. Ideally all three.

What Does a Good Investment Strategy Look Like?

If speculative investments don't appeal to you, there are plenty of other options. A sensible investment strategy has the following characteristics:

- The asset allocation is carefully mapped against the level of risk and reward the investor is comfortable with.
- Investments are made for the long term.
- It does not attempt to time the market, as experienced investors understand that this is usually detrimental to long-term returns.
- It holds a diverse range of asset classes from across the world. This means capturing the upside of the market in general, while offsetting some of the downside.



Investing is suitable for everyone, whether the strategy involves simple tracker funds or bespoke managed portfolios. The basic principles remain the same, and can be scaled to any investment level.

Should You Speculate?

Speculating, on the other hand, is not for everyone. It may suit you if:

- You have surplus capital or income,
- You do not require the money for a specific purpose,
- Your main goals are fully funded,
- You can afford to lose the money,
- You have cash set aside for emergencies,
- You have other assets to provide diversification,
- You can cope emotionally with risk and potential loss.

If these don't apply to you, a more mainstream investment strategy could provide the returns you seek, without over-extending on risk.

Please don't hesitate to contact me to find out more about your investment options.

Thank you

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