NEWSLETTER

INVESTMENT BASICS: UNDERSTAND YOUR PORTFOLIO

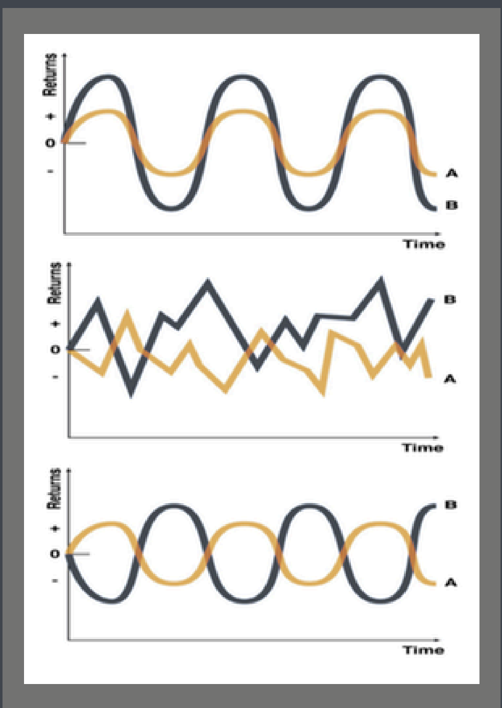
Understanding the core principles of investing is key to understanding your investment portfolio and helps you make informed choices and grow your wealth over time. Below, we expand on key terminology, explore the major asset classes, and examine how human behaviour shapes investment outcomes.

Key Investment Terminology

DIVERSIFICATION

- The strategy of spreading investments across different asset classes, sectors, regions, and investment styles. It helps reduce exposure to any single risk, and smooths your returns.

  Also note: Correlation – how closely two investments' returns move in relation to each other. Ideally, you'd want investments that aren't too closely correlated (or have negative correlation) as this smooths portfolio volatility.



Source: LibreTexts

These two investments have **perfect positive correlation.** The correlation coefficient is 1.0 or 100%.

These two investments have **no correlation.** They are uncorrelated to one another. The correlation coefficient is 0.0 or 0%

These two investments have **perfect negative correlation.** The correlation coefficient is -1.0 or -100%.

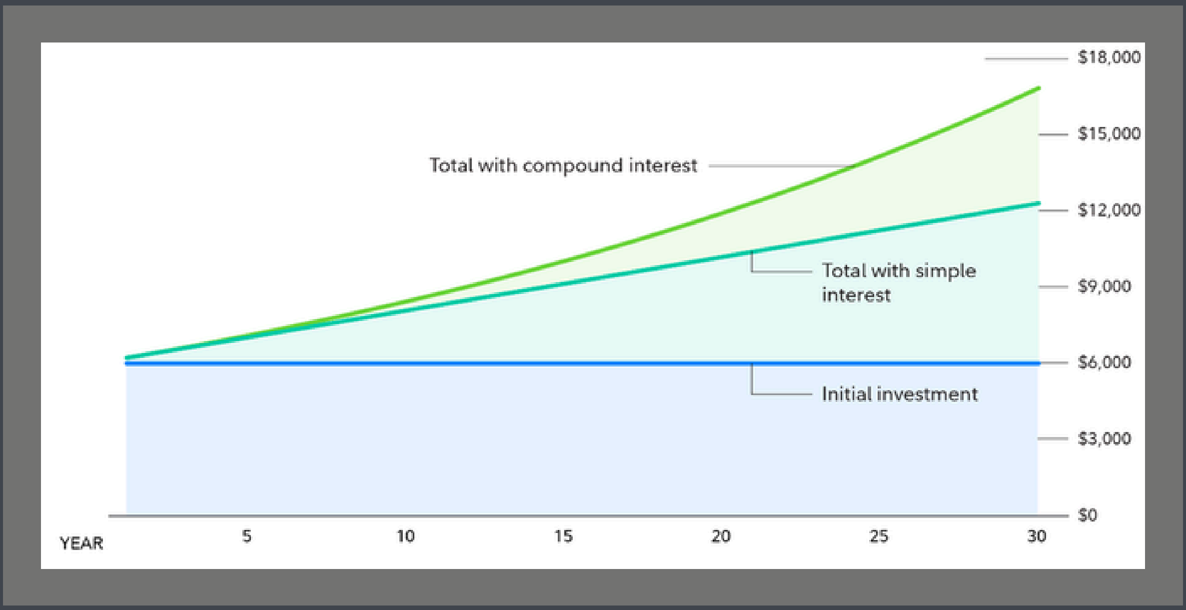
CAPITAL

COMPOUNDING GROWTH & INTEREST

Compounding is the snowball effect in investing – reinvesting earnings so they can generate returns. The earlier you start and the longer you stay invested, the more powerful compounding becomes.

Also note: Time Horizon – the period you expect to hold an investment before needing the funds; a key factor in how compounding works for you.

The Power of Compound Interest



Source: Fidelity Investments

RISK-ADJUSTED RETURNS

This measures how much return you're getting for the risk you're taking. Two portfolios can have the same return, but the one that took less risk to achieve it is considered more efficient.

Also note: Volatility – how much an investment's price fluctuates over time. Some volatility is normal and expected.

LIQUIDITY

How quickly and easily you can convert an investment into cash without significantly affecting its price. Shares of large companies are highly liquid whereas private real estate is not.

Understanding Asset Classes

EQUITIES (SHARES)

Ownership stakes in companies, offering potential for capital growth and income in the form of dividends.

Types of equities: Large-cap & small-cap stocks, local & international equities, growth & value stocks.

BONDS (FIXED INCOME)

Bonds are debt instruments where you lend money to a government or corporation in return for interest payments and repayment at maturity. Generally, bonds are less volatile than equities, and they provide steady income and act as a stabilising force in a portfolio.

Types of bonds: Government bonds, corporate bonds, municipal bonds.

COMMODITIES

Tangible assets like gold, silver, oil, or agricultural products. They can protect against inflation and add diversification but often come with higher volatility. Commodity prices are influenced by global demand, supply disruptions, and currency fluctuations.

ALTERNATIVES

Assets beyond traditional stocks and bonds, including private equity, hedge funds, real estate, infrastructure, venture capital, and collectibles like art. These can reduce correlation to public markets but may be less liquid, carry higher fees, or require a longer time horizon.

CASH & CASH EQUIVALENTS

- Includes money market funds, treasury bills, and bank deposits. While they generate modest returns, they provide safety, liquidity, and flexibility within your portfolio.

Behavioural Finance & Market Psychology

Investing is synonymous with numbers, charts, and logic, but markets are equally shaped by human behaviour. Investor decisions are influenced not just by facts but also by emotions and mental shortcuts—known as biases—that can lead to irrational choices. Recognising these forces is key to staying disciplined and focused on long-term goals.

Common Behavioural Biases

HERD BEHAVIOUR

- Following the crowd by buying when others are euphoric or selling in panic, often resulting in buying high and selling low.

LOSS AVERSION

- Feeling the pain of losses more strongly than the pleasure of gains, leading to overly cautious choices and missed opportunities.

OVERCONFIDENCE

- Believing we can outguess the market, often resulting in excessive trading and higher risk

RECENCY BIAS

- Giving too much weight to recent events, assuming they will continue indefinitely.

CONFIRMATION BIAS

- Seeking only information that supports our existing views while ignoring contrary evidence.

ANCHORING

- Fixating on past price points or market levels even when circumstances have changed.

Sources: Forbes, ACCA Global, US Bank

At iF Capital, we’re focused on the fundamentals, staying aware of the behavioural traps that affect decision-making, and committed to making rational, disciplined, and successful long-term choices for your portfolio.