INTEGER WEALTH GLOBAL

Literature – Types of Investors

Issue: 21 June 2020

What Is an Investor.?

An investor is any person or other entity (such as a firm or mutual fund) who commits capital with the expectation of receiving financial returns. Investors rely on different financial instruments to earn a rate of return and accomplish important financial objectives like building retirement savings, funding a college education, or merely accumulating additional wealth over time.

A wide variety of investment vehicles exist to accomplish goals, including (but not limited to) stocks, bonds, commodities, mutual funds, exchange-traded funds (ETFs), options, futures, foreign exchange, gold, silver, retirement plans, and real estate. Investors can analyse opportunities from different angles, and generally prefer to minimize risk while maximizing returns.

Investors typically generate returns by deploying capital as either equity or debt investments. Equity investments entail ownership stakes in the form of company stock that may pay dividends in addition to generating capital gains. Debt investments may be as loans extended to other individuals or firms, or in the form of purchasing bonds issued by governments or corporations which pay interest in the form of coupons.

Understanding Investors

Investors are not a uniform bunch. They have varying risk tolerances, capital, styles, preferences, and time frames. For instance, some investors may prefer very low-risk investments that will lead to conservative gains, such as certificates of deposits and certain bond products.

Other investors, however, are more inclined to take on additional risk in an attempt to make a larger profit. These investors might invest in currencies, emerging markets, or stocks, all while dealing with a roller coaster of different factors on a daily basis.

Institutional investors are organizations such as financial firms or mutual funds that build sizable portfolios in stocks and other financial instruments. Often, they are able to accumulate and pool money from several smaller investors (individuals and/or firms) in order to make larger investments. Because of this, institutional investors often have far greater market power and influence over the markets than individual retail investors.

Passive Investors vs. Active Investors

Investors may also adopt various market strategies. Passive investors tend to buy and hold the components of various market indexes and may optimize their allocation weights to certain asset classes based on rules such as Modern Portfolio Theory's (MPT) mean-variance optimization.

Others may be stock pickers who invest based on fundamental analysis of corporate financial statements and financial ratios—these are active investors.

One example of an active approach would be the "value" investors who seek to purchase stocks with low share prices relative to their book values. Others may seek to invest long-term in "growth" stocks that may be losing money at the moment but are growing rapidly and hold promise for the future.

Passive (indexed) investing is becoming increasingly popular, where it is overtaking active investment strategies as the dominant stock market logic. The growth of low-cost target-date mutual funds, exchange-traded funds, and robo-advisors are partly responsible for this surge in popularity.

Those interested in learning more about investing, passive & active investors, and other financial topics may want to consider enrolling in one of the best investing courses currently available.

Types of Investors

1. **Angel Investors**

   An angel investor is a high-net-worth private individual that provides financial capital to a startup or entrepreneur. The capital is often provided in exchange for an equity stake in the company. Angel investors can provide a financial injection either once or on an ongoing basis. An angel investor typically provides capital in the early stages of a new business, when risk is high. They often use excess cash on hand to allocate towards high-risk investments.

2. **Venture Capitalists**

   Venture capitalists are private equity investors, usually in the form of a company, that seek to invest in startups and other small businesses. Unlike angel investors, they do not seek to fund businesses in the early stages to help get them off the ground, but rather look at businesses that are already in the early stages with a potential for growth. These are companies often looking to expand but not having the means to do so. Venture capitalists seek an equity stake in return for their investment, help nurture the growth of the company, and then sell their stake for a profit.

3. **P2P Lending**

   P2P lending, or peer-to-peer lending, is a form of financing where loans are obtained from other individuals, cutting out the traditional middleman, such as a bank. Examples of P2P lending include crowdsourcing, where businesses seek to raise capital from many investors online in exchange for products or other benefits.

4. **Personal Investors**

   A personal investor can be any individual investing on their own and may take many forms. A personal investor invests their own capital, usually in stocks, bonds, mutual funds, and exchange-traded funds (ETFs). Personal investors are not professional investors but rather those seeking higher returns than simple investment vehicles, like certificates of deposit or savings accounts.

5. **Institutional Investors**

   Institutional investors are organizations that invest the money of other people. Examples of institutional investors are mutual funds, exchange-traded funds, hedge funds, and pension funds. Because institutional investors raise large amounts of capital from many investors, they are able to purchase large amounts of assets, usually big blocks of stocks. In many ways, institutional investors can influence the price of assets. Institutional investors are large and sophisticated.

6. **Investors vs. Traders**

   An investor is typically distinct from a trader. An investor puts capital to use for long-term gain, while a trader seeks to generate short-term profits by buying and selling securities over and over again.

   Investors typically hold positions for years to decades (also called a "position trader" or "buy and hold investor") while traders generally hold positions for shorter periods. Scalp traders, for example, hold positions for as little as a few seconds. Swing traders, on the other hand, seek positions that are held from several days to several weeks.

   Investors and traders also focus on different types of analysis. Traders typically focus on the technical factors of a stock, known as technical analysis. A trader is concerned with what direction a stock will move in and how to take advantage of that movement. They are not as concerned about whether the value moves up or down.

   Investors, on the other hand, are more concerned with the long-term prospects of a company, often focusing on its fundamental values. They make investment decisions based on the likelihood of appreciation of a stock's share price.

7. **What Are the 3 Types of Investors in a Business.?**

   The three types of investors in a business are pre-investors, passive investors, and active investors. Pre-investors are those that are not professional investors. These include friends and family that are able to commit a small amount of capital towards your business. Passive investors are those that are professional investors that commit capital but do not play an active role in managing the business. An example would be angel investors. Active investors are those that commit capital but are also actively involved in the business. They make decisions on strategy, senior management, and more. Examples include venture capitalists and private equity firms.

8. **How Do Investors Make Money.?**

   Investors make money in two ways: appreciation and income. Appreciation occurs when an asset increases in value. An investor purchases an asset in the hopes that its value will grow and they can then sell it for more than they bought it for, earning a profit. Income is the regular payment of funds from the purchase of an asset. For example, a bond pays fixed payments at regular intervals.

What Qualities Make a Good Investor.?

To be a successful investor, a certain set of skills are required. These include diligence, patience, acquisition of knowledge, risk management, discipline, optimism, and the setting of goals.

The Bottom Line

An investor is an individual or entity that utilizes its capital or the capital of others with the goal of receiving a return. Investors can range from a person buying stocks at home on their online brokerage account to multi-billion-euro funds investing globally. The end objective is always the same, to seek some return (profit) in order to build wealth.

Investors commit their capital to a wide variety of investment vehicles, such as stocks, bonds, real estate, mutual funds, hedge funds, businesses, and commodities. Investors encounter risk when they commit capital and walk a balance between managing risk and return.

Key Takeaways

Investors use different financial instruments to earn a rate of return to accomplish financial goals and objectives.

Investment securities include stocks, bonds, mutual funds, derivatives, commodities, and real estate.

Investors can be distinguished from traders in that investors take long-term strategic positions in companies or projects.

Investors build portfolios either with an active orientation that tries to beat the benchmark index or a passive strategy that attempts to track an index.

Investors may also be oriented toward either growth or value strategies.

First Person Responses to an Investor Questionnaire

This article definition is written in the first person for the purpose of self-identification with which type of investor you asses yourself as being.

1. **High Net Worth Investor**
    a. I declare that I qualify as such because **at least one** of the following two statements applies to me:
    I had, throughout the financial year immediately preceding the date below, an annual income to the value of £100,000 or more
    b. I held, throughout the financial year immediately preceding the date below, net assets to the value of £250,000 or more. Net assets for these purposes do not include:
        - the property which is my primary residence or any money raised through a loan secured on that property
        - any rights of mine under a qualifying contract of insurance; or
        - any benefits (in the form of pensions or otherwise) which are payable on the termination of my service or on my death or retirement and to which I am (or my dependents are), or may be, entitled.

2. **Self-certified Sophisticated Investor**
    I am a self-certified sophisticated investor for the purposes of the restriction on promotion of non-mainstream pooled investments.

I understand that this means:

a. I can receive promotional communications made by a person who is authorised by the Financial Conduct Authority which relate to investment activity in non-mainstream pooled investments;
b. The investments to which the promotions will relate may expose me to a significant risk of losing all of the property invested.

I am a self-certified sophisticated investor because at least one of the following applies:

- I am a member of a network or syndicate of business angels and have been so for at least the last six months prior to the date below;

- I have made more than one investment in an unlisted company in the two years prior to the date below;

- I am working, or have worked in the two years prior to the date below, in a professional capacity in the private equity sector, or in the provision of finance for small and medium enterprises

  - I am currently, or have been in the two years prior to the date below, a director of a company with an annual turnover of at least £1 million.

3. Definition of Professional Client - UK

3.1 An entity required to be authorised or regulated to operate in the financial markets. The following list includes all authorised entities carrying out the characteristic activities of the entities mentioned whether authorised by an EEA State or a third country and whether or not authorised by reference to a directive:

a. a credit institution
b. an investment firm
c. any other authorised or regulated financial institution
d. an insurance company
e. a collective investment scheme or the management company of such a scheme
f. a pension fund or the management company of a pension fund
g. a commodity or commodity derivatives dealer
h. a local
i. any other institutional investor

In relation to MiFID (Markets in Financial Instruments Directive) or equivalent third country business a large undertaking meeting two of the following size requirements on a company basis:

a. balance sheet total of EUR 20,000,000+
b. net turnover of EUR 40,000,000+
c. own funds of EUR 2,000,000+

In relation to business that is not MiFID or equivalent third country business a large undertaking meeting any of the following conditions:

a. a body corporate (including a limited liability partnership) which has (or any of whose holding companies or subsidiaries has) (or has had at any time during he previous two years) called up share capital or net assets of at least £5 million (or its equivalent in any other currency at the relevant time);

b. an undertaking that meets (or any of whose holding companies or subsidiaries meets) two of the following tests:

(i) a balance sheet total of EUR 12,500,000+
(ii) a net turnover of EUR 25,000,000+
(iii) an average number of employees during the year of 250+

c. a partnership or unincorporated association which has (or has had at any time during the previous two years) net assets of at least £5 million (or its equivalent in any other currency at the relevant time) and calculated in the case of a limited partnership without deducting loans owing to any of the partners;

d. a trustee of a trust (other than an occupational pension scheme, SSAS, personal pension scheme or stakeholder pension scheme) which has (or has had at any time during the previous two years) assets of at least £10 million (or its equivalent in any other currency at the relevant time) calculated by aggregating the value of the cash and designated investments forming part of the trust's assets, but before deducting its liabilities.

e. a trustee of an occupational pension scheme or SSAS, or a trustee or operator of a personal pension scheme or stakeholder pension scheme where the scheme has (or has had at any time during the previous two years):

(i) at least 50 members; and
(ii) assets under management of at least £10 million (or its equivalent in any other currency at the relevant time)Types of Investors

f. a local authority or public authority.

3.2 A national or regional government, a public body that manages public debt, a central bank, an international or supranational institution (such as the World Bank, the IMF, the ECP, the EIB) or another similar international organisation.

3.3 Another institutional investor whose main activity is to invest in financial instruments (in relation to the firm's MiFID or equivalent third country business) to designated investments (in relation to the firm's other business). This include entities dedicated to the securitisation of assets or other financing transactions.

We would apply the same standards for a client who has elected to be treated like a professional investor as described above.

Note: the above definition of “professional client” has been extracted from section 3.5.2 of the Conduct of Business Sourcebook of the Financial Conduct Authority (“FCA”) Handbook.

Please refer to the FCA website (www.fca.co.uk) for additional information. We reserve the right to amend this definition in line with possible amendments to chapter 3.5 of the Conduct of Business Sourcebook of the FCA Handbook.

4. Advised Investor

I am a client of a firm that has assessed me as suitable to receive financial promotions. I accept that the investments to which the promotions relate may expose me to a significant risk of losing all the money or other property invested.

I am aware that it is open to me to seek advice from an authorised person who specialises in advising on unlisted shares and unlisted debt securities.