

Cultural Daily

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Weighing Risk Is Sooo 40 Years Ago

Our Friends · Tuesday, May 11th, 2021

Wall Street has certainly seen its fair share of high-risk companies that come and go, while the real muscle of the economic world stands steadfast. Companies such as Coca-Cola, have stood the test of time, continuing to grow today, and giving dividends all the while. On the other end of the financial spectrum, you find flops such as Vonage, which had great concepts that were ultimately loftier than they could handle.

Risk factoring is a fundamental part of investing, especially for aggressive investors, which are rarely shocked by a loss. Something that the influx of younger investors in this generation have overlooked is the “factoring,” aspect, it seems. They see a forecast for a brand or company that says “high risk,” and automatically assume that means high yield, without ever weighing the possible outcomes, or even investigating market trends.

It’s common to see a new investor take more risk and they should! It will teach them volatility as well as how to properly gauge an emerging market, which there are numerous of! Whether it be tech, fashion, or even the ever-popular crypto market; risk factoring is soon to take its proverbial “belt” off for some old-fashioned lessons in fiscal responsibility.

Not to say that these markets are completely worthless! Crypto is a very high-risk market, and those who take shares in it should watch the trends like a hawk! Fashion isn’t a new market, but the parts of it that are young continue to grow, lowering its overall volatility.

If you were to consider the tech industry as a volatile market, then you’d be half right. Nobody thought that Microsoft, Google, or IBM would become what they have today and if you would have invested just \$1,000 into Microsoft back in 2011, you would have made a \$10,000 profit as of now! However, many of the tech hopefuls never seen the chance to emerge in the shadow of the giants.

Similarly, Warren Buffet mentioned that these kid investors like to bring up the automobile industry as an example of a high risk that paid off. While true to some degree, Warren pointed out that in that time there were thousands of car companies that flopped, while the few you know of today came out on top.

The odds that a brand new tech company will emerge and make any sort of headway without completely changing the game, or adding something of great value to the industry, are astronomically low. Brands like Tesla, are one in a million, that can enter an already established market and become a real contender, and they had to go to outer space to do it! Still, even Tesla is

considered risky to be banking on.

Software brands, on the other hand, are always changing, and always adding something that was left out by the other guy. This makes them all volatile in a way. For instance, Facebook is one of the largest household names the world has ever seen. It's made acquisitions aplenty since its birth, which seems so long ago for a tech company. As if Facebook extends its youth by ingesting other neighboring brands such as Instagram and Oculus.

Instagram sees this as a positive merger, despite the classic movie insinuation of the "evil corporate" takeover scenario. Let's say you wanted to [buy Instagram stock](#). Being that Facebook acquired that company, you can still invest in Instagram, you just do so by purchasing Facebook shares! In the hypothetical world where this merger didn't occur, Instagram might have drowned in a market that Facebook was dominating.

Instagram also appreciates the ride that Facebook is giving them while it slashes through the brush to blaze a new trail of industry. That's right! Facebook is a pioneer! Ask yourself, "how does Facebook make so much money?" It's not because you shared a post, I assure you. They make over 90% of their profit via ad revenue! This is an unprecedented concept because this means that the product Facebook sells is... Well, it's you...

That's for an entirely separate discussion, altogether!

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