

# Understanding the different faces of investment risk

## Morningstar Investment Management South Africa

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### For Financial Advisers and their Clients

Risk and reward go hand in hand. But as behavioural expert Carl Richards once put it, “Risk is what’s left over after you think you’ve thought of everything.” Most investors prepare for the risks they’ve already seen, market drawdowns, bad years, volatile headlines. What we struggle to prepare for are the risks we can’t easily imagine – the things that catch us all off guard. That challenge feels especially relevant today. Markets have delivered strong returns, leadership has become increasingly concentrated, and it’s tempting to believe that “what’s worked” will simply keep working.

Morningstar’s latest research highlights a growing concern: the risk of putting too much capital into too few places, whether that’s a single market, sector, or small group of dominant companies.

**Risk isn’t just volatility:** Traditionally, risk is measured as how much returns move around volatility. But volatility doesn’t tell the full story. It treats upside and downside as the same, and it doesn’t capture the risks that matter most to investors’ real lives and long-term goals.

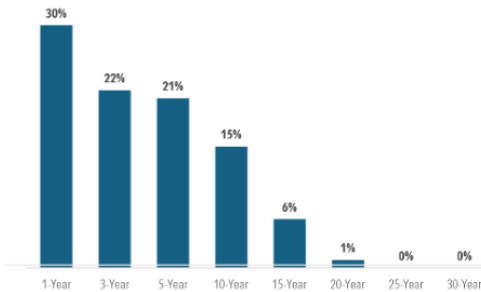
Three risks tend to matter far more than just volatility.

#### 1. The Risk of Opportunity Cost:

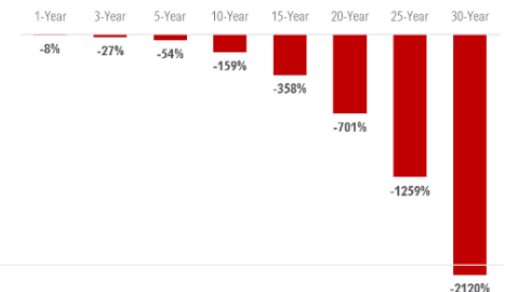
Being too cautious can be just as damaging as being too aggressive. Over time, portfolios that avoid growth assets altogether often struggle to keep up with inflation and long-term return targets. While equities bring short-term volatility, they also provide the return engine needed to grow purchasing power over decades. The risk isn’t just losing money; it’s not earning enough to meet future goals.

**Cash has its place – but also major shortcomings**

Historical Odds of Cash Outperforming US Stocks (1928–2024)



Average Underperformance: Cash vs. US Stocks (1928–2024)



Source: Creative Planning, Charlie Bilello. Data as of 2024. Analysis looks at monthly total returns on US stocks (S&P 500) compared to the return on cash (3-month Treasury bills). Past performance no guarantee of future results.

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**2. Concentration Risk**

This is where today’s market environment becomes especially relevant. When returns become driven by a narrow part of the market, whether a handful of mega-cap stocks, one country, or one investment style, portfolios can quietly become riskier. No asset class, market, or manager outperforms all the time. History shows that leadership rotates, often when investors least expect it. Diversification across regions, asset classes, and investment styles isn’t about smoothing every bump, it’s about reducing dependence on a single outcome going right. As Morningstar’s latest research points out, putting “too much in one place” can feel comfortable when it’s working, but it can quickly become the dominant source of risk when conditions change.

Asset Class	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
US Small Cap	-4.3	21.4	14.7	-11.0	25.4	19.9	14.6	-20.5	16.8	11.4	12.7	9.6
Emerging Markets	-15.4	10.5	36.4	-15.0	17.7	17.6	-3.7	-20.5	8.9	6.9	33.3	7.0
US Mid Cap	-2.4	20.3	15.9	-11.3	25.9	13.5	24.5	-13.2	16.1	13.6	7.2	6.5
Commodities	-27.4	18.5	5.1	-12.0	12.2	-8.1	41.4	19.7	-6.2	2.0	8.4	5.9
Large Value	-3.9	17.1	13.5	-8.4	26.3	2.7	24.9	-7.7	11.3	14.2	15.7	4.5
Intl Stocks	-0.9	1.0	24.9	-13.8	21.9	7.9	11.2	-14.3	18.1	3.4	31.4	3.7
<b>S&amp;P 500</b>	1.3	11.8	21.7	-4.4	31.3	18.4	28.6	-18.1	26.1	24.9	17.8	1.1
High-Yield Bonds	-5.5	13.9	6.1	-1.9	14.2	4.1	4.1	-11.4	12.4	7.7	8.6	0.7
Investment-Grade Bonds	-1.1	6.0	7.2	-3.8	17.1	11.1	-1.6	-18.0	9.3	1.0	8.0	0.4
Cash	-0.1	0.1	0.7	1.7	2.1	0.4	-0.1	1.4	5.0	5.2	4.2	0.2
<b>S&amp;P 500 best-performing global asset class?</b>	<b>YES</b>	<b>NO</b>	<b>NO</b>	<b>NO</b>	<b>YES</b>	<b>NO</b>	<b>NO</b>	<b>NO</b>	<b>YES</b>	<b>YES</b>	<b>NO</b>	<b>NO</b>

**No asset class wins all the time**

Source: Morningstar Direct as at 20 January 2026. ETFs used for performance analysis. References to individual securities not an offer to buy or sell. Past performance is not a guarantee of future results.

### 3. The Risk of Falling Short

<b>Annual contribution</b>	1000	1000	1000	1000	1000
<b>Strategy</b>	Inflation	Inflation + 2%	Inflation + 3%	Inflation + 4%	Inflation + 5%
<b>Return requirement per annum</b>	4,5%	6,5%	7,5%	8,5%	9,5%
<b>Investment period</b>	30	30	30	30	30
<b>Ending value</b>	<b>R61 007</b>	<b>R86 375</b>	<b>R103 399</b>	<b>R124 215</b>	<b>R149 688</b>

Source: Morningstar data as at 31 December 2025.

This is the risk that ultimately matters most. Small differences in long-term returns can translate into large differences in outcomes. Being in the wrong strategy for too long, often driven by fear or recent performance, can leave investors meaningfully behind where they need to be. Avoiding short-term discomfort at the cost of long-term progress can be one of the most expensive decisions an investor makes.

**Active asset allocation:** Risk isn't something to eliminate. It's something to understand, diversify, and align with purpose. Markets will always be uncertain. Volatility will always show up. But over time, the biggest risks tend to come from being too concentrated, too cautious, or too reactive to what just happened.

That's why disciplined diversification matters - and why partnering with active, experienced managers can be so powerful. Skilled managers don't just spread risk across assets, regions, and styles; they interpret risk. They apply research, judgement, and real-world experience to identify opportunities, avoid pitfalls, and rebalance thoughtfully as conditions evolve. The goal isn't to predict what will win next, but to build resilience - so portfolios are not dependent on any single story, trend, or assumption being right.

#### Risk Warnings

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