Principles of Investing

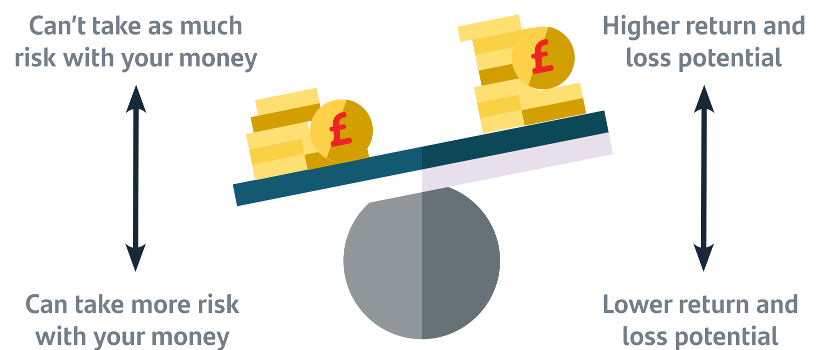
The risk and return balance

Seeing markets see-saw down, up and down again as they are buffeted by crisis events and changing economic conditions is a constant reminder that, if you invest, you will always be taking some degree of risk in the interests of achieving higher returns. The secret is finding the right balance of risk and return for you.

Risk and return: the two sides of the scale

Investments go down as well as up and you could get back less than you put in. As a general rule, the higher the level of risk you take, the higher the potential returns. However, it also means the higher the risk of losses. In just the same way, the lower the level of risk you take, the lower the potential returns and risk of losses.

Everyone has their own tipping point



Risk Factors

How the risk side of the scale stacks up for you will depend on several factors:

- How much risk you are **willing** to take: that's what you're comfortable with and won't keep you awake at night.
- How much risk you can **afford** to take: that's how much money you could afford to lose without putting your current lifestyle and future goals in jeopardy.
- How much risk you **need** to take: that's linked to how much investment growth you need, based on your current plans, to achieve your goals.

This last part is important. If your attitude to investing does not align to the risk required to achieve your long-term goal, you may have to compromise on your goals and expectations. Likewise, you may be able to achieve your goals for less risk than you may have realised.

Your timescale also matters – if you are investing for longer you might be able to take a little more risk as there is more time for long-term investment growth to balance out short-term ups and downs.

Keeping your balance

Where you sit on the risk-return scale (your risk profile) influences the investments that are right for you and the way your overall investment portfolio should be spread (diversified) across different asset classes, sectors and global regions.

As long as your overall investment portfolio matches your risk profile and capacity to experience loss, they should remain appropriate throughout all market conditions. That's especially the case if you opted for a risk managed or targeted fund or managed portfolio service. These are specifically designed to keep to a set level of risk and return even as market conditions change.

Changing priorities?

If the balance of your scale has changed for more fundamental reasons – perhaps your life priorities are different now or you are getting closer to reaching your goals and becoming more concerned about managing the risk of loss – it might be time for a review.

When market conditions matter

If you've been investing for the long-term and had planned to start taking income from your investments within the next five years or so, it's possible that downturns and periods of sharp market ups and downs may have an impact on your plans. If you have concerns about this and are not sure what to do a financial adviser can help.

There's a lot to think about but the good news is that there's a lot of help available. A financial adviser can help you to understand how you feel about risk and reward and there are online tools that can also help if you'd prefer to go it alone.

Explore the other principles of investing

To cut through the noise and understand the principles of investing, visit our website **here** where you can watch or read about them.

Asset Management

Let's be clear!

Investment terms explained

Asset class: A group of investments with similar traits. Shares, bonds, property, cash and alternatives are all examples of asset classes.

Diversification: Spreading your money across different investments to help manage risk.

Portfolio: A group of investments that are managed together to meet a particular objective.

Time horizon: How long you expect to be investing for before you might need your capital back. Investing should usually be for a minimum of five years or more.

Important Information

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