Kymin
Financial Planners

FACTSHEET

Do you have an appetite for risk?

Striking the right balance is important to avoid losses

While diversification is important, you should keep in mind how much risk you are prepared to accept on your money. If it is important to you to avoid losses, you may want a portfolio that has less in shares and more in cash and fixed interest securities held to maturity, for example.

KNOW YOUR RISK APPETITE

Saving and investing involves a variety of risks, for example, the risk your money will not keep up with rising prices (inflation risk), the risk that comes with share prices going up and down (volatility risk), the risk that an institution will fail (default risk), and the risk that you could have earned better returns elsewhere (interest-rate risk).

The aim is to strike a balance between these different risks. What is a good balance for you will depend on:

- Your personal circumstances – how much you can afford to lose (your capacity for loss)
- Your investment goals, time frame and need for returns
- Your personal attitude to risk

Taken together, these make up what's called your 'risk appetite'. Of these three things, your capacity for loss and your investment goals are most important. Personal attitude to risk is hard to measure and can be changeable; what feels comfortable one day may not the next.

HOW TO ASSESS YOUR RISK APPETITE

The following steps should be considered when deciding your risk appetite:

Know what you can afford to lose
Ask yourself what would happen if you lost some or all of the money you're putting into investments. This will depend on your circumstances and how much of your money you're investing.

Think about people who depend on you financially and any other important financial commitments you need to be sure of meeting.

Work out your goals and timings
Your saving and investing choices will depend on your goals and timescales. The bigger your goal in relation to the assets or income you wish to invest, the greater the rate of return required to beat inflation and hit your goal. Taking no volatility risk at all may make your goals impossible to achieve; taking too much may lose you your investment.

Short-term goals – under five years – such as a car or a house deposit are best saved for in cash. If you have a short-term goal, your appetite for volatility risk would usually be low, and cash products will be the best place to invest. You don't want to be worrying about the state of the financial markets when you need your money to be readily accessible. However, cash savings run the risk of not keeping up with rising prices (inflation risk).

Inflation-beating returns
With longer-term goals, it's more usual to put your money into investments that have a better

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