Mattioli Woods plc

ATTITUDE TO RISK | ESTABLISHING A RISK PROFILE

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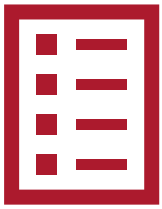
Attitude to Risk: Why Is It Important?



In current times of uncertainty and market volatility, for most clients, investment performance is the most important conversation piece. This is understandable as they want to see the value of their investments and how these have performed. But, should this be top of our meeting agenda?

Although performance dominates conversation, the most important talking point should be around investment risk and how this is set against the client objectives.

'Attitude to investment risk' is a phrase that gets used regularly, but what does this actually mean? Simply, attitude to risk is how much risk you are comfortable in taking with your money and assets in a timeframe. Perhaps this sounds straight forward as a concept but in application, we need to explore it in more detail.

Establishing and Monitoring a 'Risk Profile'

Establishing the objectives is hugely important to be able to accurately consider someone's appetite for taking risk. It may be that we have to alter the risk level to meet these or refine our objectives if the combination of the two are unrealistic. For example, a lower risk investor seeking higher returns, may have to reduce expectations as it is difficult for this be achieved. Alternatively, if there is no movement on the objectives, they may have to increase the risk profile if they want these to be met, which of course could come at a price. In contrast, for those higher risk investors who may not need such a high return, it may be that we can reduce risk levels but still meet objectives.

After understanding what the client wants and needs, their attitude to risk, as well as measuring the ability to withstand a financial loss (capacity for loss), we can establish if the client is a low, medium, or high-risk investor (or anywhere in between). A low-risk investor will accept a lower level of performance, although take comfort in that there is a reduced chance of making a loss.

In comparison, a high-risk investor is more accepting of a larger chance of losing money but is content with this given this provides the facility to achieve higher levels of return.

Establishing a suitable level of risk for our clients is achieved through long discussions with them, sometimes over several meetings. In addition, using a risk questionnaire to help gauge a clients understanding is useful. However, it is constantly reviewed as part of the 'financial MOT' as mentioned in a recent article. This ongoing interaction with clients is extremely important as the risk position changes over time due to the world we live in and of course, changes in client's circumstances.

Currently all advisors are re assessing the appetite for risk in all areas of our client's financial lives as (not just on their investments), let's be honest, things have changed a little over the last few months.

If you need any help at all with understanding these issues and how we are helping our clients please get in touch.