ForresterHyde
CHARTERED FINANCIAL PLANNERS
Authorised and Regulated by the Financial Conduct Authority

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Investment Risk

Introduction

Whether you are investing with a specific goal in mind, or simply saving for retirement, it's important to understand investment risk. Investment risk describes the uncertainty of the returns on an investment and is an indicator of the potential for an investment to either lose or make money. Whilst risk is always a factor, it is possible to use tools to limit the level of investment risk that your savings will be exposed too. Different assets have differing levels of risk. For example, Equities (Shares) are typically considered more risky than Fixed Interest investments (Bonds). You can read more about this in our Asset Class Factsheet.

Forrester-Hyde offer diversified investment solutions, with varying levels of exposure to investment risk suitable for investors ranging from low to high risk.

Which investment is suitable for me?

It is important to understand that investment risk is just one factor when making an investment. The below are all crucial in determining an appropriate investment for you:

Attitude to Investment Risk – Understanding how you feel about risk is key to managing your expectations. All of us are different and therefore react differently to the volatility of investments (the fluctuation of the capital value which you have invested). Your investment will rise and fall from time to time, you must therefore be comfortable with how much the capital value fluctuates. It is generally considered that the higher return you want, the more risk you will usually have to accept. Therefore, it is important to strike a balance between risk and reward for you personally.

Before proceeding with an investment, we work with you to identify your attitude to investment risk by initially asking you complete a Risk Tolerance Questionnaire. We then discuss the results of this further, accounting for any opinions you have expressed during our communications as well your investment experience, to help you make the right choice.

Investment Goals and Time Horizon - What you are investing for and when you will need access to your money will impact on what types of investments are suitable for you. You may have a specific idea of what you want from your investments, for example a certain level of income, capital preservation or targeting a specific amount and/or time frame. You may not have a specific target but instead may be funding for retirement in general.

Typically, if you are saving for the short-term (less than 5 years) you should not take too much risk. If you are investing for the medium to long-term you can afford to take more risk as your money has more time to recover from negative periods of investment performance. Either way, it is important to know whether your plans are realistic and whether you may need to consider taking more or less risk than you would initially have thought.

Capacity For Loss – As an individual understanding your appetite for investment risk is one factor, however, whether you can afford to take an increased level of risk or whether you need to increase risk to meet your objective must also be considered. You therefore need to consider how an investment loss would impact your standard of living, now and in the future, or whether you have flexibility about when you need to access the investment. For example, could you leave the investment to recover from a period of negative performance? Your other assets and income are crucial in understanding your capacity for loss.

Existing Assets and Income – Understanding what you already have in place, such as personal savings, investment ISAs, share portfolios or pension savings allows us as advisers to build an overall picture of your current assets and ensure these are all invested appropriately, in line with your expectations and objectives. It may be that you wish to take a higher or lower level of risk with some assets than others, and our holistic approach can help identify whether this is appropriate.

Key Terms:

Time Horizon - The length of time over which an investment is made or held before it is liquidated.

Liquidity - The degree to which an asset can be quickly bought or sold in the market at a price reflecting its intrinsic value.

FE Risk Score - A measure of volatility relative to the FTSE 100 index, which has a fixed risk rating of 100.

Portfolio	FE Risk Score
Conservative	30
Cautious	42
Balanced	55
Assertive	69
Adventurous	77
MSCI World	83
FTSE All-Share	103

Source: FE Analytics as at 14/07/2020

Categorising Risk

At Forrester-Hyde, we broadly define risk through five categories:-

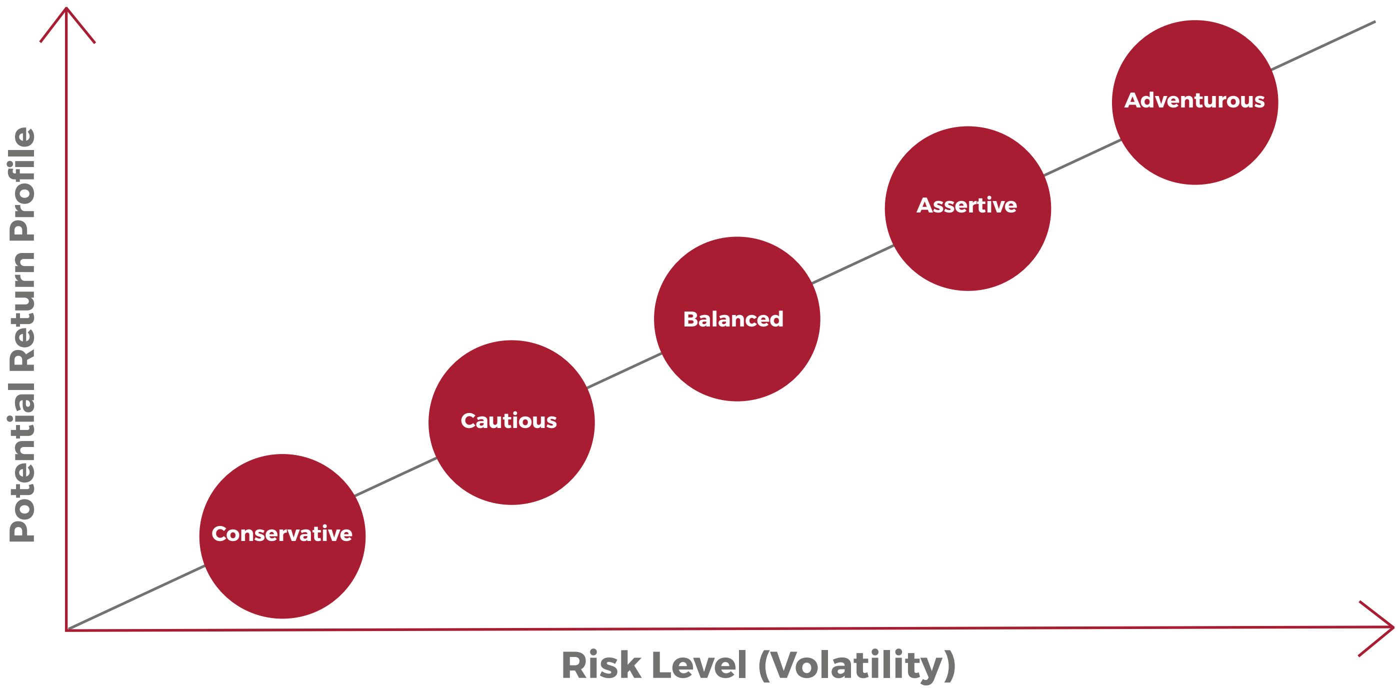
Conservative (Low) - This range is designed for the very cautious investor, one with a low risk tolerance and/or a short time horizon. It is targeted towards the investor seeking stability and liquidity from their investable assets. The main objective of the individual in the conservative risk range is to preserve capital while providing income. Fluctuations in the values of portfolios within this range are minor.

Cautious (Low to Medium) - This range is appropriate for the investor who seeks both modest capital appreciation and income from their portfolio. This investor will have either a moderate time horizon or a slightly higher risk tolerance than the conservative investor in the previous risk range. While this range is still designed to preserve the investor's capital, fluctuations in the values of portfolios may occur from year to year.

Balanced (Medium) - This range will best suit the investor who seeks relatively stable growth from their investable assets offset by a low level of income. An investor in the balanced risk range will have a higher tolerance for risk and/or a longer time horizon than either of the previous investors. The main objective of an individual within this range is to achieve steady portfolio growth while limiting fluctuations to less than those of the overall stock markets.

Assertive (Medium to High) - This range is designed for investors with a relatively high tolerance for risk and a longer time horizon. These investors have little need for current income and seek above-average growth from their investable assets. The main objective of this risk range is capital appreciation, and its investors should be able to tolerate considerable fluctuations in their portfolios.

Adventurous (High) - This range is appropriate for investors who have both a high tolerance for risk and a long investment time horizon. The main objective of the adventurous risk range is to provide high growth for the investor's assets without providing current income. Portfolios in this range may have considerable fluctuations in value from year to year, making this category unsuitable for those who do not have an extended time horizon.



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