

# What you need to know about...

## INVESTMENT RISK

To be able to effectively plan your finances and investments, you must be able to understand and quantify risk. This is not as simple as the chances of getting your money back, as you need to consider many other aspects such as fluctuations in the value of your portfolio, the costs of inflation and interest rates. This leaflet deals with how we assess and deal with your attitude towards risks with investments, pensions and savings.

### What do you mean by 'investment risk'?

In simple terms this is the amount of risk you are prepared to take with your money. This will depend on your goals, the length of time you have to invest, and how cautious you are.

The general principle is that the more risk you are prepared to take, the greater the potential returns (although of course nothing is guaranteed); the reverse is also true. Along with risk comes volatility - if you take a riskier approach, to try to get greater returns, then you should expect to have more short-term fluctuations in the value of your investments.

### Why is risk important?

It is vital to understand what level of risk you are prepared to take, because this should affect your ultimate expectations. If the idea of you losing your capital keeps you awake at night, then you are probably averse to too much risk. For example, if you are saving for the short-term it would probably not be right for you to invest your money in assets which could lose money. Of course, you should also limit your expectations since 'safer' investments are usually lower-yielding. Other aspects should be taken into account, such as your level of experience in investing.

### How risky are different types of investment?

See below for a rough guide

Risk	Level	Example investment choice
Very speculative	10	Lottery Futures and options
Speculative	9	Small company individual shares
Very High risk	8	Individual shares Emerging markets funds
Higher risk	7	European, Far East & Japan funds
Above average risk	6	Global funds Some UK funds
Average risk	5	Balanced managed funds Index tracking funds
Moderate risk	4	Property funds With profit funds
Cautious risk	3	With profit funds Corporate bond and fixed interest funds
Guaranteed capital (with fluctuating income)	2	Bank & building society accounts National savings
Guaranteed capital	1	Premium bonds National savings

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Of course, this is only a rough guide, and care should be taken with individual assets.

### How do we assess your tolerance of risk?

You probably have a good idea, just thinking about it, and this will have a big part to play in our discussions.

We will start with a short questionnaire to help assess your feelings on some of these important subjects. This helps to avoid some people gravitating towards 'average' risk.

This questionnaire then allows us to have a more scientific analysis of your position. We can then discuss with you what this means, and take a further view once you are happy with the result.

### Diversification

One of the most important aspects of risk is this concept of diversification. The idea is that if you avoid having all your eggs in one basket you can reduce your risk. If you think about it, if you invest all your money into one company, and that company goes bust, you lose 100% of your investment; if you had invested in 50 companies, then you would only lose 2%.

We apply this principle to create a portfolio to match your attitude towards risks. The idea is to spread risk by holding multiple investments, across multiple sectors. Thus you would likely hold investments in some 'safer' areas such as cash and bonds, with some in more 'riskier' areas such as shares and property. We would then spread this across geographical areas so

that you get greater exposure, and further spread your risk.

The idea is that as one investment class is not doing so well, others will be performing better. Over time this should smooth out the risk and give you more stable returns.

This is especially important since it is virtually impossible to predict which types of assets will perform best at any particular point.

The portfolio that you are left with will reflect your attitude to risks. Thus if you are risk averse you will have more of the 'safer' type assets. If you are comfortable with risks, you will have more of the 'riskier' asset classes.

### Reviewing your portfolio

You probably get your car or boiler serviced each year, because you recognise that not to do so will probably mean they will break down at some point. We recommend the same with your investment portfolios so that you ensure you remain invested within the appropriate level of risk, and with well-performing funds.

### Why use us?

1. **Free** initial consultation
2. **Guaranteed** satisfaction with our advice
3. **Fee based** - no commission hungry salesmen
4. **Fully independent** from insurance companies
5. State of the art **research tools**
6. Regular contact and **services to suit you**

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