

Your attitude to risk



People often think of risk as a bad thing: something to be avoided. When it comes to investments however, risk is inseparable from reward — and is therefore completely necessary.

As a rule of thumb, the greater the risks you're willing to take, the higher your potential rewards could be. But risk needs to be weighed against other factors.

A common definition for investment risk is 'deviation from an expected outcome', and there are two aspects to this. The first is that your investments might fall in value. The second is that they might grow, but too slowly to meet your needs.



Why do we measure your attitude towards it?

It's our job to help you reach your chosen financial destination — and to get you there as safely as possible. This means that the journey is just as important as the destination: no one enjoys stress or discomfort.

Everyone's situation is unique, which is why we need to assess your circumstances and goals very carefully. Together, we'll discuss your appetite for risk, your capacity for loss, and where your boundaries lie.

This way, we can make bespoke recommendations just for you.

When do we assess your appetite for risk?

We'll do this at the very outset, and then repeat it along the way. This is because life never stands still: your circumstances will change from time to time, as will your needs, your financial goals, and the global context around you.

We usually begin the process during our fact-finding meeting (the one after the 'getting to know you' meeting). Since you will have already decided to work with us, this meeting will be much more involved. We'll be collecting detailed information, and asking you lots of questions. It's probably the most important conversation we'll ever have, so it mustn't be rushed or taken lightly.

After this, we'll probably reassess your risk profile at least every three years, or as circumstances dictate. Those will be simpler meetings, flagging up any changes in your circumstances or feelings towards risk, or in the economy or legislation. They will enable us to check that your financial plan and investment portfolio are still appropriate for your needs.

We'll work closely with you to establish three things:

- *Your willingness to take risks.*
- *Your capacity for risk (in other words, your ability to withstand loss).*
- *Your needs and goals.*

We'll look at each of these in turn, using some fairly sophisticated tools. Then we'll try to reconcile them, because they rarely match — for example, we would all love to meet very high goals, but with the minimum of risk!



1. Willingness (Risk Tolerance)

A robust risk-tolerance test uses well established disciplines such as psychometric profiling to assess your knowledge of risk, your experiences of and attitude towards it, and your personality traits. In short, it's a scientific way to measure how you feel about risk.

2. Ability (Risk Capacity)

Your risk capacity is your ability to withstand loss. It assesses the impact you would experience should your investment/s deviate from their desired performance.

This is quite different from risk tolerance: some people might be quite willing to take big risks, for example, but not have the financial security to be able to withstand the losses which might result. Such people would have high tolerance but low capacity; other people might be 'wealthy worriers', with high capacity but low tolerance. As a general rule, no one with low tolerance or low capacity should be exposed to high-risk investments (unless their goals clearly dictate otherwise).

3. Needs and Goals (Risk Required)

This final stage in structured risk profiling helps to identify and clearly define your ambitions, and to design a plan for meeting them.

People have all sorts of goals, not just financial ones, and we'll need to probe all of these. We'll encourage you to visualise your future and to weigh up the relative importance of all of your goals. We'll work with you to define the kind of return you'll need to deliver the future you envisage — and from that, we'll come full circle to arrive at the required level of risk.

Sometimes, people's goals can be achieved well within both their tolerance of risk and their capacity for it. At other times, achieving the desired goals may require greater risk taking.

If that happened, naturally we'd need to ask some serious questions. Are the ambitions realistic? Are they vital to quality of life? Can risk levels be reduced by using higher lump-sum investments, or by adding regular premiums? Would extending the timescale make a difference?

In summary – Good risk profiling helps you and us to see how these three things relate.

The next step:

After defining your risk profile we'll agree a general strategy for aiming to meet your goals. Of course, with this must come an understanding that nothing can ever be guaranteed: the value of investments can fall as well as rise, due to a wide range of factors beyond your control and ours.

This inevitable lack of certainty makes it even more important that you receive excellent financial advice and planning which is of course, where we come in.

Research has shown that the greatest influence on returns (and therefore your risks) is the way in which your money is spread across different asset classes — typically property, cash, fixed-interest securities and equities. So we'll construct a portfolio with an asset allocation which, over the longer term, should deliver the returns you want, within your risk tolerance.





Your Risk Profile

Capacity

The amount of risk you can **AFFORD** to take to achieve your financial goal.
(Financial)

Tolerance

The amount of risk you **PREFER** to take to achieve your financial goal.
(Psychological)

Required

The amount of risk you **NEED** to take to achieve your financial goal.
(Financial)

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