

Focus On Risk Profiles

Your Infocus Financial Adviser can help you build a portfolio that takes into account the level of risk you are comfortable with.

We all have different ideas about what level of risk we are comfortable with. Some of us love the rush of adrenaline we get from skydiving, while others find simply diving into a pool to be plenty of excitement. It's partly to do with where we are in life (a retired grandmother is probably less inclined to go skydiving) and partly, it's just a personality thing. Some people hear the word "risk" and think: "danger." Others hear the word "risk" and think: "woo hoo!"

The same goes for investing. Some of us are prepared to take higher risks in pursuit of potentially higher returns, while others prefer to be more conservative to protect their capital.

As part of the Infocus financial planning process, your Infocus Financial Adviser will work with you to determine your risk profile and create a portfolio that carries the level of risk that you are comfortable with.

What is investment risk?

Risk is the chance that you may not achieve your expected outcomes. All investment decisions involve some form of risk. The level of risk that you choose to accept depends on a number of factors, including:

- your investment time frame,
- the gap between your current and required financial position,
- your attitude to risk, and
- your personal circumstances at the time of your investment.

Figure 1 - Risk vs return trade off.



There is a relationship between the amount of risk you wish to take and your likely investment return. Defensive assets such as cash and fixed interest generally carry lower levels of risk, and the returns from these investments will be more predictable than from "riskier" assets but will usually result in a lower investment return. Effectively, you forego potentially higher returns in exchange for greater certainty.

Growth assets such as property and shares generally carry higher levels of risk, and it's likely that the value of your investment will fluctuate, especially over short and medium term periods. However, growth assets are expected to deliver a higher

long term return than defensive assets. When you invest in growth assets, you sacrifice short term certainty in exchange for a higher potential long term return.

Risk Profiles

Below is a general overview of the five main Risk Profiles. Within each of these profiles there are further factors that will need to be taken into account. Your Infocus Financial Adviser will help you to determine which main profile fits you, and then will work with you to fine-tune your portfolio so that it matches your needs.

The Conservative Investor

As a Conservative investor, risk within your investment portfolio must be low. You may have little or no investment experience. Your primary concern is protecting your capital and you are prepared to accept lower returns in order to do that. The negative effects of tax and inflation are less of a consideration for you.

A Conservative investor may be investing over a short time frame of 1 to 3 years. There may be the likelihood that they will need to access some or all of their funds at some time during the investment period, so it is important that their assets are sheltered from any short-term market fluctuations.

The Cautious Investor

As a Cautious investor, you are generally seeking to protect the wealth you have already built up than to grow your money over the long term. Protecting your capital is still reasonably important to you however you are prepared to accept some capital volatility in the short term in order to protect your assets from inflation over the medium to long term.

A Conservative investor may be investing over a fairly short time frame of 3 to 5 years. There may still be the likelihood that they will need to access some or all of their funds during the investment period, however they may seek to minimise the potential for any loss of capital and only pursue less aggressive opportunities for growth as part of their overall portfolio.

The Prudent Investor

As a Prudent investor, you are generally seeking a balanced portfolio that is designed to work towards your medium to long term financial goals. You require an investment strategy that

can cope with the effects of tax and inflation and you are willing to take calculated risks in order to achieve your financial goals.

The Prudent investor may be looking to invest over a medium time frame of around 5 to 7 years. It is unlikely that they will need to access their funds during the investment period although they may need a small portion in the event of an emergency. Generally Prudent investors have some previous experience with investing in the share market.

The Assertive Investor

As an Assertive investor, you are prepared to accept higher volatility over the short term in order to assist you in growing your capital over the long term. You still require a diversified portfolio of investments but are willing to consider some more aggressive investments as part of it.

An Assertive investor is generally looking at an investment time frame of more than 7 years. They are probably earning sufficient income to live on so that they can invest funds for the long term in order to have the potential to achieve capital growth. They generally will not need to access the funds for 5 to 7 years and are prepared to take on investment risk in order to have the potential for improved returns.

The Aggressive Investor

As an Aggressive investor, you are prepared to accept short term capital fluctuations in the pursuit of the potential for higher returns over the long term. Your investment choices are diverse but carry with them a higher level of risk and you have an understanding of the potential for short term market fluctuations. The potential for wealth accumulation is more important to you than capital stability and you have the time and financial freedom to wait out any market downturns. Your priority is to achieve a high level of capital growth.

The Aggressive investor is investing for the long run – generally 7 to 10 years or more - and will not need to access the funds that are being invested. They most likely have previous experience with investing in the share market.

Your Infocus Financial Adviser will work with you at customising your portfolio to fit your risk profile, so the actual asset allocation may vary. You may require a higher yield, more tax efficiency, or have existing investments within your portfolio that you do not want to sell.

Because your life and circumstances are always changing, you should check in with your Infocus Financial Adviser each year to review your risk profile and make sure it still fits your needs.

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