

Managing the risks of investing

There is hardly anything in life that doesn't involve taking some risk – even getting out of bed in the morning! Many people are fearful of investing because all they focus on is the risk of losing their hard earned money. Others look for great returns and forget about the risk entirely. As with anything, there has to be a balance.

In the majority of investment structures, risk and return are related. The more risk you take, the more return you can potentially make (and vice versa). But are there ways in which this “risk” can be managed without defaulting to low-return products?

Here is a handy checklist to keep you focused on maintaining a balance.

1. No risk = no return

To get ahead, your investment return needs to take account of tax and also stay ahead of inflation. Many low-risk investments such as bank savings accounts often do not achieve that goal. To keep moving forward, you must take some risks.

2. Learn more and be aware

Many investment disappointments come from lack of knowledge. You must ask questions until you understand the investment. If you do not understand it, do not invest in it.

3. Rely on experience

Software and mathematical models can help understanding but in the end it is people who make the difference. Smart investors seek the help of experts.

4. Never assume

It is easy to make assumptions and accept the information as told to you. You must test the assumptions through questioning.

5. Understand the risks

It is easy to pretend that the risks are small. You must accept that risk exists, talk about it fully and manage it.

6. Mix up your investments

Diversifying means you take on many ‘uncorrelated’ or connected risks. The larger number of small and different investment risks you take, the more consistent the returns of your portfolio.

7. Stay focused

Be consistent. A rigorous and systematic approach will beat a constantly changing strategy every time.

8. Use common sense

Investing means making judgements rather than following a script. It is better to be approximately right than to be precisely wrong.

9. It's not just about returns

It is all about risk and return. Accepting and managing the risk will help you realise the return you desire.

Just like achieving other goals in life, you need to decide how much risk you are prepared to take in chasing higher rewards. Come in and talk to us about what best suits your situation.

Secure Wealth Financial Services are dedicated to providing you with information so that you can make the decision that is right for you. We invite you contact us on 03 9555 3135 or email info@securewealth.com.au to make an appointment today.

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