



# Attitude to investment risk

Simon Burke from Arctic Life & Pensions discusses how to invest when stock markets are unsettled

WHEN stock markets are unsettled it does not mean you should not invest, but you may want some help deciding when, where, and what in.

When seeking investments advice your financial advisor will seek to establish your attitude to investment risk so as to be better able to match product to client, but this is never easy especially as even the term 'investment risk' means different things to different people.

Indeed investment risk means different things to the same person at different times!

**Consider the following.**

- Q1: Do you think the old adage of 'Buy Low, Sell High' is a sensible one?
- Q2: If a Stock Market had just crashed, and the news is talking gloom and doom, would you be happy to make a new Stock Market investment?

For most people the answers are yes and no respectively, demonstrating that perceived wisdom and human response are often at odds with each other.

**Now answer the following questions:**

- Q3: Do you regard yourself as a cautious or speculative investor?
- Q4: Which is safer a UK Stock Market Investment or a Building Society Deposit Account?
- Q5: In 1945, £100 invested into a Building Society Account Vs. a £100 invested into a selection of UK Equities:



Using Barclays' Building Society Index & Equity Index, by 2006 one of these investments was worth £1,767 and one £125,243.

**Which investments do you think did best?**

There is no correct answer to question three or four, but I would suggest that the missing component to the question is 'Over what period of time?', then a more meaningful and considered answer is possible.

With question five it is the equities which have produced the almost unbe-

lievable superior returns. The Retail Prices Index over the same timescale as question five above suggests £100 would have to be worth £2,764 to have retained its buying power.

Clearly the building society investment in this example has in real terms fallen in value. Which do you think was the safer investment building society account or UK stocks and shares investment?

Part of assessing investment risk is explaining what risk is and quantifying it.

A financial advisor will seek to guide you through this often complex topic explaining the concept of risk, the effects external factors such as changes in interest rates, property markets, equity markets, exchange rates, global economics, inflation, etc, can have on your proposed investment.

There is little point, for instance, saying you are a very cautious investor unwilling to take any investment risk whilst at the same time wanting a recommendation for an investment product which will produce returns only associated with significantly higher risk returns.

No one can guarantee you will make money but a good advisor will be able to recommend investment products that should perform within your levels of acceptable risk provided they are compatible with your levels of expectation.

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