



Life After Lockdown

Exploring the concept of risk

Part of thinking about our future plans and making good financial decisions is about assessing risk, be this making specific spending, savings and investment choices or thinking about our bigger picture lifestyle choices – and now more than ever, this feels relevant - as we review our 'new normal'.

Even though the Stockmarket has consistently provided better growth than any other asset, (including cash, property, fixed interest bonds and even gold,) over the long term, some people are still scared to invest.

Why is this? One word – RISK!

Definition

Risk is exposure to the consequences of uncertainty. It includes the possibility of economic or financial loss or gain, physical damage, injury to people, delay or non-achievement of planned objectives, as a consequence of uncertainty about the future. Risk thus has two elements: the likelihood of something happening, and the consequences or impacts if it were to happen.

As you sit and read this, you are taking a risk: You are breathing. You are taking a risk that you will inhale bacteria, etc., that will make you sick. But you accept that risk because the alternative is a poor one!

You are also taking a risk, because while you read this post, you are not giving your full attention to something else.

We are taking risk every minute of every day, both in our personal and professional lives.

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The key is to do so in an informed way, making logical and thoughtful decisions, such that you increase the likelihood and extent of your success.

We all take risks every day – crossing the road, driving our car, using power tools or even making the dinner! Not taking risks would see us staying in bed each day – no wait – that is a risk to our health and our body seizing up!

Over time we develop risk mitigation strategies - our past experience and our knowledge help us to understand the risk and see the consequences of avoiding it. For example, we know to look left and right when crossing the road, take driving lessons and read the instructions when using anything electrical or mechanical.

If we could understand and mitigate the risks associated with investment, then people might feel a lot more comfortable.

Our lives, especially now in lockdown, are full of uncertainty. As Benjamin Franklin once said, "In this world nothing can be said to be certain, except death and taxes."

Balance

It is important to take a balanced approach to risk management.

Many things can happen between where we are and where we want to go, and we have control over very few of these.

But we don't have to submit ourselves to the fates; we can influence our future life through risk management.

Simply put, risk management is about:

- Understanding all the possible things that might happen for good and bad.
- Calculating the likelihood that these things once identified, might happen
- Estimating the consequences of those events and situations and how they might affect our ability to achieve our objectives (otherwise, do they really matter?)
- Determining whether those consequences are acceptable/desirable.
- Taking action to modify, as best we can, the consequences and/or their likelihood.



Risk management is about far more than avoiding hazards and limiting the possibility and extent of loss or failure. It's doing what we can to optimise positive outcomes in our lives and it's about intelligent and informed management.

Risk is managed effectively when you have done all you can to influence the making of decisions such that the right level of the right risks is being taken for your own personal circumstances.

Outcomes

When assessing risk, it is essential that we first determine where it is we want to go and/or what we want to do. For example: once we are clear that we want to get to the other side of the road, only now can we assess the risks associated with the objective. Are we trying to cross a quiet county lane, or a dual carriageway or an 8-lane motorway? Are we alone or are their children with us? Are we carrying heavy shopping etc? What might we do differently in each case?

So it is, when we are thinking about our future life.

What will we do with our time? Can we afford to take exotic holidays, sell our business in 5 years, make gifts to grandchildren or pay for nursing care? These big picture life questions need answers, and all are related to our money and wealth and the amount of risk we need to consider in relation to its investment.



For example: people who are too cautious with their money, will only receive modest growth. **In fact where inflation rates are higher than interest rates, they will be receiving no growth at all and their money will be losing its value and its purchasing power over time.**

BUT although these people might be happy to see that the amount of money does not fluctuate and so sleep soundly at night, they may never have enough money in the future to afford to do and have the things that really bring them joy.

So, what is the biggest risk – is it that their money might go up and down or that they will never be able to live the life they have dreamed about?

An alternative scenario for these people is to keep enough money in cash for:

- an emergency fund
- planned expenditure over the next 12 months – holidays, new cars etc
- providing a guaranteed supplementary income for 2-3 years.

They can then invest the rest of their money into a balanced portfolio to take account of:

- their attitude to risk,
- the growth they need each year to achieve their desired standard of living
- their ability to withstand any falls in the value of their money
- the most tax efficient vehicles for their personal circumstances.

The management of risk is something that should be under continual monitoring - this situation should be reviewed regularly so they always have sufficient cash to feel comfortable.

This is a significant risk mitigation strategy that will help them to appreciate and understand the risks; the success of the outcomes in their lives and the positive consequences of their actions. It is a great example of **intelligent and informed money management**.

Investing intelligently is about taking **the right level of the right risks** and a balanced portfolio which includes cash, property, fixed interest and shares, can be designed for everyone, to help them make the most of their money without having any sleepless nights.

In closing, it is worth noting that something labelled "risky" by one person may not be considered so by another. What do YOU think about hang-gliding? These people are obviously enjoying themselves!

Risk is a concept that is determined by life experience and by the influence of our families and friends.



A good Financial Plan will consider the essential relationship between your money and your life and will provide you with the solid infrastructure necessary to build a successful and happy future.

On the next page you will find 4 questions you could ask yourself to start to really consider your goals and risk tolerances.

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Exercise

Questions to ask yourself to help you determine the amount of risk you are prepared to take with investments. Write down your answers.

Question 1

What are you investing for? Is there a specific goal(s) or just for security? Having more money means you can do and have things that are important to you – what does this mean? Think about this and discuss with your life partner if applicable.

Question 2

When will you need and/or want to use the money? Will you need it next year or maybe in 20 years? Defining the time and target date of this objectives is key as short term money should not be put at risk whereas investing for the long term can generate better growth.

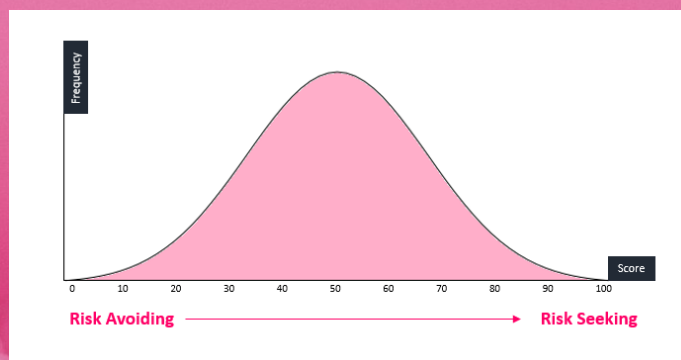
Question 3

How much risk do I need to take to get the growth I need to fund my desired future life?

If you have ambitious plans for the future, it may be necessary to take more risk to get a better return on your money, whereas if you have a more modest outlook, you can afford to be more cautious (subject to beating inflation!) Either way, you need to feel comfortable with the risks you are taking and be able to sleep at night!

Question 4

Magenta uses a special risk questionnaire with clients which is scored on a scale of 0 to 100. As you can see from the graph, the average score is 50. Two-thirds of all scores are within 10 points of the average. What do you think your score might be?



"A goal without a plan is just a wish." Antoine de Saint-Exupéry

We hope you have found this document of interest. If you would like to explore any of the issues discussed and/or want some help in building your personal financial and life plans, don't hesitate to contact us. We are open for friendly chats or full consultations whenever you are ready to talk to us. You can click [here](#) to book an initial chat.

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 Magenta Financial Planning

Important Information

This document is not providing any financial advice, just guidance.

Magenta can offer independent financial advice and is regulated by the Financial Conduct Authority. This means that we consider a wide range of financial strategies and solutions. We are constantly reviewing the market to ensure that the services and products we offer are appropriate for our clients.

We offer both initial and ongoing services. Any solutions we arrange for you will only be kept under review as part of an agreed ongoing service for which you agree to pay.

Any advice or recommendation that we offer to you, will only be given after we have considered a number of factors and assessed your needs. We will assess your financial objectives and how much risk you are prepared to accept and how much of a drop-in capital value you could withstand without compromising your plans. We will also take into account any restrictions that you wish to place on the type of solutions you would be willing to consider.

We cannot adequately perform our duties and responsibilities to you unless we receive your full co-operation. You therefore agree to promptly provide such information as Magenta needs to be able to provide the agreed service, to discuss needs and objectives candidly and to keep us informed of any changes in your situation.