

Investment Risk – Why is it all so hard?

With collapsing finance companies, defaulting structured investments, falling share prices and now weakening property prices investors, particularly elderly retired investors, have never felt so vulnerable.

While falling share and property prices are something investors would normally expect to incur and plan for over an investment period, the significant and in some cases the total losses from finance companies, junk credit and structured products are not. In the case of these investments, the desire for high yield overrode risk management and too many investors have ended up putting that part of their investment portfolio which should be the lowest risk into very high risk assets.

There has also been dubious (at best) advice from many financial advisers, zealotry selling tactics by real-estate packagers and questionable presentation and selling of investment products. Additionally, the complexity and lack of transparency of structured investment products has clearly been beyond the understanding of investors and many of the advisers that recommend them.

At the heart of the problem is the tendency of many investors and many advisers to firstly focus on the investment product or security they are buying rather than having any investment strategy. Unfortunately, many advisers find it easier to focus on selling product rather than developing a strategy because it is easier and faster to sell a product...” buy this hot yield, or make this share trade or look at this capital protected, guaranteed high yield structured commodity fund...but be quick as it is a limited offer!”. The worst adviser builds a strategy to merely justify a product sale.

As investors we all like to think we are getting “a deal” or some “hot tip” when it comes to investing. Very few investors take the big picture and stand back and say – why am I buying this, what is the real risk and is it appropriate for me and if so why? How does it fit in with my overall investment strategy?

The reason why investors don't take the bigger picture into account is because they don't have an investment strategy. Creating one is all too hard and it is difficult to see the value until it is too late.

Those that seek advice find it hard to differentiate between a good adviser and a product flogger adviser.

So what now? Regardless of the outcome of receivers recovering assets in collapsed finance companies, advisers being sued for inappropriate advice and investment product sellers being scrutinized for their disclosure and practices...one key issue remains...what does an investor do now?

The first thing is that investors need to take control – now and always. Don't sit and wait and worry. By all means seek redress, but you also have to deal with the future.

Taking control means;

- 1) Realistically assessing your current financial situation (what are you likely to have left?)
- 2) Reassessing your lifestyle and financial objectives and priorities. What do you want to happen and by when? What are the priorities now? What now looks possible and what does not?
- 3) Establishing clear investment objectives. This needs to articulate the investment horizon you have, the return you need on your capital, the acceptable level of risk (quantified in terms of volatility of return and likely loss of capital) and whether you need to use up your capital.
- 4) Establish a clear investment strategy. How will you deploy your money to achieve the investment objectives with the lowest possible risk and in the most cost and tax efficient way? What asset classes and securities do you need to buy and what do you want to stay away from?
- 5) Execute and monitor your strategy – invest your funds accordingly and take the time each quarter to track how your investments are performing – take an active interest. Each year you need to assess your position to make sure your objectives are still appropriate and that your investment strategy is working in line with your expectations.

All sounds too hard? For many people it is. If you can't put a strategy together to meet your objectives then you will need to seek advice (or educate yourself).

If you use an adviser then no matter who they are don't abrogate your responsibility for setting the investment objectives and strategy. You need to take ownership of them. Don't shut your mind off and leave it all up to the adviser...insist you spend time working with them in any planning process (good strategy development takes time and several visits with your adviser).

Make sure their output or plan meets your needs. Is the strategy clearly articulated? Is there anything you don't understand? Above all know the risk of the investment and what return it should be generating for you. These risks and returns should be clearly quantified.

Regardless, of your present financial position there are always options available to you. The critical thing is to take control and move forward.