Risk

When advising our clients on their investments, we need to consider their attitude to risk. As a result, we ask them to complete a risk profiling questionnaire on a regular basis in order to ensure that any recommendations we provide are consistent with their tolerance to risk and capacity for loss. At the same time, we risk rate the funds on our buy list, so that we can ensure that when we construct portfolios, the weighted risk rating of the underlying investments remains consistent with their appetite for risk.

The result of our risk profiling process determines which of five categories that our clients fall into. These are 'low', 'low to medium, 'medium', 'medium to high' and 'high.'

When constructing portfolios for our clients, we choose funds that will help to achieve their investment objectives and that have a weighted risk profile which is compatible with the level of risk they are happy to accept. In the process we blend asset classes and portfolios may include funds that have a higher level of risk and others that have a lower level of risk than might seem appropriate. For example, a client who falls into the high risk category would have a higher proportion of their portfolio invested in higher risk investments, such as overseas equities and a lower proportion in lower risk investments, such as absolute return or gilts. By contrast a client who falls into the low risk category would have very little, if any, exposure to higher risk investments and a high proportion of lower risk investments.

How do we measure risk?

Risk can be measured in many different ways. However, we choose to do so by assigning a risk rating to each fund in which we invest, which is determined by the risks associated with the asset class and the investments held within the fund. Generally speaking, higher levels of risk mean higher potential rewards but also higher 'volatility.' By volatility, we means the 'ups and downs' in the value of a fund over a fixed period of time. Any increase in volatility usually means it is likely that the value of your investment will fluctuate accordingly.

Risk Definitions

Low

As a cautious investor, you are looking to achieve total returns that are better than those offered by deposit accounts with banks and building societies but without undue risk to the whole. You are keen to preserve the face value of the bulk of your capital, accepting that, after allowing for interest received, its real value, or purchasing power, may be eroded as a consequence of both inflation and taxation.

Risk

Risk Definitions

Low (Continued)

Typically, a low risk investor will wish to retain relatively substantial cash deposits but in order to seek to achieve better returns with some funds, other instruments that may be employed are fixed interest and index linked investments together with a relatively modest investment in equity markets where both risk and reward are potentially greater.

Low to Medium

As a low to medium risk investor you seek to achieve rather more than preservation of the face value of your capital and look toward mitigating, at least in part, the impact of both taxation and inflation. You understand that, in seeking to achieve this, you accept the risk of an element of short term volatility, but you seek to contain this at a relatively modest level.

A low to medium risk investor is likely to retain relatively large reserves of cash on deposit alongside an investment portfolio which, depending upon individual time horizons, may, very broadly, balance fixed interest and index linked investment on the one hand roughly equally with UK and overseas equity funds, for greater growth potential, on the other. Such a portfolio may also include a relatively modest element of alternative assets, including, for example, commercial property.

Medium

As a medium risk investor, you are looking to seek protection of both capital and income against the impact of both taxation and inflation. In order to achieve this, you are prepared to accept the risk of some short term volatility but you wish to avoid the very large fluctuations associated with high risk investment.

The degree of volatility, or risk, will be balanced through use of a combination of asset classes to achieve diversification. Such asset classes involve retaining a proportionate balance of cash on deposit for ease of access, an element of fixed interest and index linked investment along with use of UK and overseas equity funds with greater potential for growth in the medium term (i.e. five to fifteen years or longer) but also with added volatility. Commercial property, again incorporating UK and overseas investment, may also be appropriate.

Medium to High

As a medium to high risk investor you seek to be more ambitious than simply protecting the real value of your capital from both inflation and taxation: rather, you are looking to achieve real growth but without taking an overtly adventurous or high risk stance. You understand that this approach will expose you to market fluctuations against which you seek a degree of mitigation.

The medium to high risk investor will place a relatively substantial portion of available funds in UK and global equity markets together with other alternatives such as property and commodity funds, with a view to benefiting from their potential for capital appreciation over the medium term (five to fifteen years and beyond). The associated risks will be balanced by the inclusion of fixed interest and index linked investment while the medium to high risk investor will also be advised to maintain a suitable level of cash reserve to adequately cover anticipated needs in the short term.

Risk

Risk Definitions (Continued)

High

As an adventurous or high risk investor you seek to achieve higher total returns through investment of a larger portion of your capital in more volatile areas of the stock market, accepting that values, and indeed income, may fluctuate substantially from time to time so wide variations of returns from one year to the next may be experienced.

The high risk investor will place a substantial portion of available funds in UK and global equity markets and other alternatives such as property and commodity funds with a view to benefiting from their potential for capital appreciation over the medium term (five to fifteen and beyond) while accepting that such a course carries greater risk of short term volatility. Such an investor may also include smaller elements of fixed interest and index linked investment while also maintaining adequate cash reserves, with a view to at least mitigating some of the risk element.

Asset or fund type and risk rating ranges

Very Low

Cash & Money Market Funds
Guaranteed, Protected & With-Profits Funds

Low to Medium

Absolute Return Funds
UK Government, Corporate & Strategic Bond Funds
Infrastructure Funds
Multi Asset Cautious Managed Funds
Distribution Funds

Medium

UK Equity Funds
Multi Asset Balanced Managed Funds

Medium to High

Asian, European, Japanese, US & Global Equity Funds
UK & Global Property Funds

High

Overseas Smaller Company Funds
Specialist Equity Funds
Emerging Market Funds

Very High

Natural Resources & Commodity Funds