INVESTING DIRECT LTD

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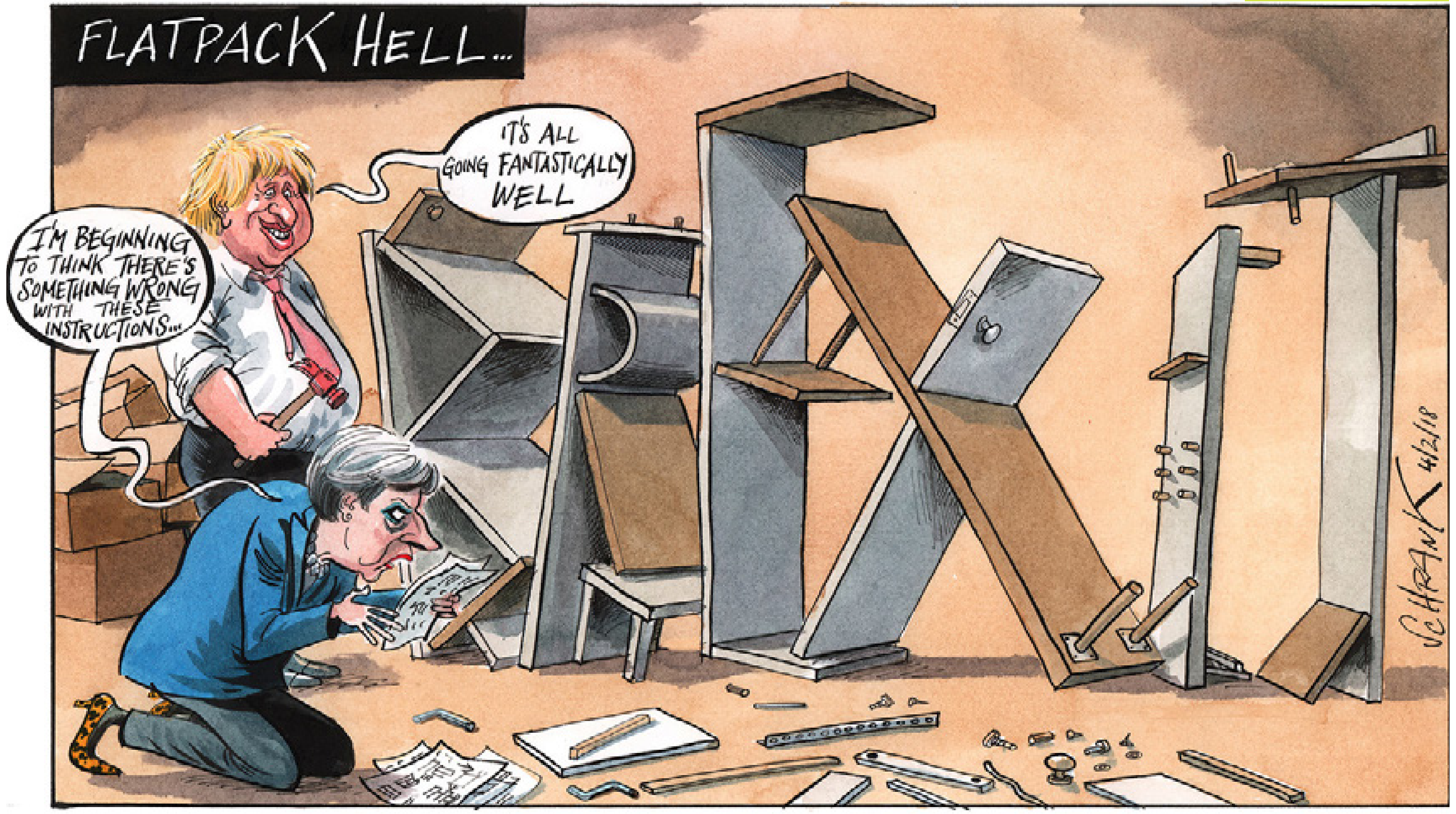


Cartoon by the artist - Peter Schrank who is an internationally award winning political cartoonist.

What are the Risks with Investments.

Article written by Anna Sofat

> “An investment in knowledge pays the best interest.”
>
> Benjamin Franklin

When it comes to investing, nothing will pay off more than educating yourself. Do the necessary research, study and analysis before making any investment decisions.

Volatility has returned to the stock markets – and in a big way. Political and economic uncertainty around Brexit on a domestic level, alongside the actions of Trump and questions over trade agreements with China on a global perspective, have all contributed to a shaky start to 2019.

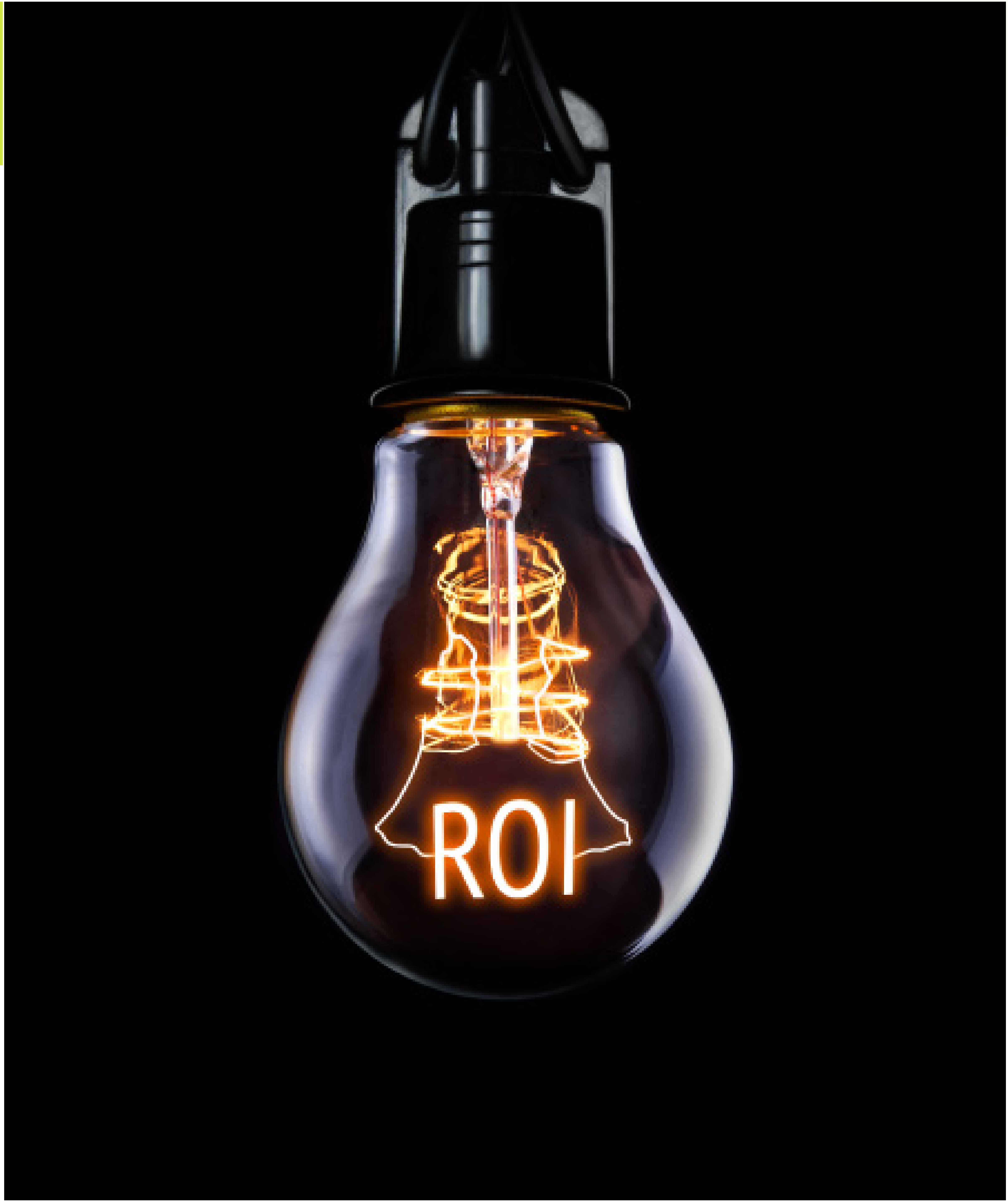
3.

REWARD

So much uncertainty and market volatility doesn't do much to inspire confidence in those that have a naturally risk-averse nature to investing, and even some seasoned investors are getting twitchy; perhaps being tempted to disinvest into cash until things settle down.

However, with interest rates remaining low and cash accounts paying next to nothing, against the backdrop of above-target inflation, one thing that is certain - holding all your investments in totally secure environment for a long period will result in losing money in real terms.

So if you're ultra-cautious, or feeling spooked by recent market performance, what can you do? Here are some questions to ask yourself...



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KINDS

Do you understand the relationship between risk and reward?

First of all, it's important to properly understand the relationship between risk and reward. Whilst we would all like to greatly increase the value of our investment portfolios with little or no risk, this isn't a realistic possibility. At the very basic level, most people understand that the more risk you take, the greater the chance there is for reward. But on the flip side of course, the higher the risk, the greater the chance for both ups and downs. With any form of investment, you could get back less than you invested

> " I would not pre-pay. I would invest instead and let the investments cover it. "
>
> Dave Ramsey

What is your attitude to risk?

When it comes to investments there is always a level of risk involved – even in everyday savings vehicles such as pensions or ISAs. With this in mind, you should carefully consider your attitude towards and emotional capacity to deal with risk. How would you react if the value of your investments fell by 5%, 10%, or even more? Would you be able to deal with the stress whilst you watched and waited for your portfolio to go back into the black?

If the answer is a categorical 'no', the stock markets are not the place for you.

If you discover that you do have some propensity for risk, you could consider splitting your investable monies 70/30 – 70% in defensive and 30% in risk assets. While the defensive component gives you security, your returns should come from the risk part of the portfolio.

What can you afford to lose?

You should only ever risk what you can afford to lose. As a general rule of thumb, you should have somewhere between 6 months and 3 years' worth of expenditure requirements as an 'emergency fund' – just in case the worst were to happen and you no longer had the ability to either earn a living or draw an income from your investments.

What is your timeframe?

One of the key considerations when making investment decisions is timeframe. If you have longer to work towards a financial goal, you can probably afford to take a bit more risk as you will have longer to recover from any falls in the value of your investments. However, when in the latter years of working years or when approaching retirement, it is common for people to 'de-risk' their portfolios into lower risk and lower return environments.

Can you risk doing nothing?

As previously mentioned, holding all your money in cash can only guarantee very meagre return rates – which in itself is somewhat of a risk. Currently, the rate of inflation is still above target, meaning the spending power of your money when held in low interest rate cash environments diminishes over time. In order to make your money work harder, it may be necessary to proceed with some form of investment.

If you do choose to go ahead with some sort of investment, do your research, take advice, and only risk what you can afford to lose.

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This whole article has been written for Investing Direct by Anna Sofat, Financial Advisor at Addidi Wealth Ltd authorised and regulated by the Financial Conduct Authority.