

THE FACTS ABOUT INVESTMENT RISK

RISK IS EVERYWHERE

When it comes to investments there is generally a relationship between risk and return.

Put simply, if you choose a high risk investment, you can potentially receive a greater return compared to the return on a lower risk investment.

The higher risk usually means that the investment returns will also be more volatile; they will tend to fluctuate from year to year, or even month to month, depending on the type of investment.

Shares and property are high risk investments. This is due to the fact that they are traded more frequently and their value depends on a high number of variables such as profit and loss, supply and demand, and even a range of global factors.

Cash and fixed-interest such as bonds are usually considered low risk investments. Investors should expect lower but more stable returns over the long term.

WHAT IS A RISK PROFILE?

Everyone is different. Some people have a real appetite for risk while others prefer to take a more cautious approach to life.

When it comes to investing, many organisations label people as conservative, cautious or aggressive investors, but your risk profile actually depends on the nature of the investment as well as your individual personality.

Essentially, your risk profile is an indication of how much risk you are willing to take to achieve a specific financial goal.

So when considering a particular investment, it's useful to look at these three different aspects of risk.

Required risk

If you have a particular financial goal in mind, you may need to earn a certain rate of return on your investment to achieve that goal. This may mean you will need to consider taking on a higher level of risk than you may have in the past.

Risk capacity

Taking on a higher level of risk means you may lose some or even all of your original investment. You need to assess your capacity to weather those losses, and if lower or negative returns may affect your standard of living, or even your ability to meet your ongoing expenses in the short term.

Risk tolerance

If you're a cautious person by nature, taking on more risk, no matter what type of investment, may make you uneasy and anxious. Higher risk usually means higher levels of volatility. Therefore, you need to determine the level of volatility you are willing to take on.

WHAT ARE THE DIFFERENT RISK PROFILES?

There is no universal standard for investment risk profiles, however the majority of financial organisations use the same principles and most profile descriptions are similar.

It's important to remember that your risk profile depends on your investment goal, the type of investment, and your current circumstances including your required risk, your risk capacity and your tolerance.

There are five main risk profiles:

RISK PROFILE	INVESTMENT GOALS
Conservative	Protect your investment, stable growth and/or high income, access within three years
Cautious	Protect your investment, stable growth and/or moderate income, timeframe of three years or more
Moderate	Grow your investment, tolerate some volatility, higher return, do not require income, timeframe of five years or more
Moderately aggressive	Grow your investment, tolerate volatility, higher returns, do not require income, timeframe from five to ten years
Aggressive	Grow your investment long term, tolerate high levels of volatility, highest possible returns, do not require income, timeframe of ten years or more

How do you find out your risk profile?

The best way to find out more about your risk profile is to talk with your financial planner. They will ask you a range of questions to determine your risk profile and to also help you determine how you can achieve your financial goals.

If there is a conflict, for example if you have a limited capacity for risk but require high returns to achieve your goals, a financial planner will help you look at your options, the possible trade-offs, and identify alternative ways of reaching your goals.

Understanding your risk profile will help you make a more informed investment decision and give you the best chance of achieving your financial goals.

WOULD YOU LIKE TO KNOW MORE ABOUT FINANCIAL PLANNING?

It doesn't matter if you're a member of Active Super or not, you can still receive affordable and professional advice from one of our local financial planners.

If you think you may need financial advice, you can request an appointment online or just call us on 1300 547 873 between 8.30am and 5.00pm, Monday to Friday to find out more.

This has been issued by LGSS Pty Limited (ABN 68 078 003 497) (AFSL 383558), as Trustee for Local Government Super (ABN 28 901 371 321) (Active Super). The information in this document is general advice only and does not take into account your personal objectives, situation or needs. You should consider obtaining professional financial taxation and or legal tailored to your personal circumstances and refer to the relevant Product Disclosure Statement available at activesuper.com.au before making a financial decision. Date issued: 25 May 2021