Randalls and Risk Management

Randalls

Financial Advice & Wealth Management

We help our clients make excellent financial decisions

It is often said that hope and fear are the most powerful drivers of human behaviour.

This insight is especially pertinent when it comes to growing and protecting our wealth – the very ground on which our futures are built. Addressing the arising conflict between these drivers and getting the right balance is at the heart of the work we undertake for our clients.

At Randalls we help our clients to make excellent financial decisions. We define an excellent financial decision as one in which the prospects for achieving a good outcome (hope) are as strong as possible while the prospects of a bad outcome (fear) are as minimal in likelihood and severity as possible.

We make three important observations about risk:

1) Risk and Reward are Related

Risk exists because of uncertainty; it is not separate from return but is the possibility that a future return may fall short of a target. 'Risk' and 'Reward' are therefore both parts of the same 'potential future return' spectrum.

What we would call 'healthy' risk is the unavoidable level of uncertainty necessary per unit of expected return. Beyond this healthy level of risk, risk is always excessive and unnecessary.

2) Risk is Personal - if it is to be Meaningful

We treat a numeric assessment of risk and reward as a helpful starting place. But really when we talk about risk and reward we are not talking about numbers at all – we are talking about what a good outcome means for a client and what a bad outcome means. This is unique to each client.

Unless risk is made truly personal, it cannot be made meaningful and if it is not meaningful it cannot be well managed. In real world terms this means that many individuals take inappropriate financial risk – either not enough or too much. On the 'not enough' level this means very little prospect of actually achieving a target, for example a certain lifestyle in retirement. And on the 'too much' level this means they could not possibly bear the risk, should it materialise – for example running out of income altogether in retirement.

3) Risk is Relative

Risk is relative to the individual taking it.

A very wealthy individual may find it acceptable to risk losing all of a £100,000 investment, but to most of us the risk of even losing half would be extremely meaningful to our circumstances. Although numerically the very wealthy individual appears to take much more risk with these moneys, in reality they are taking significantly less risk.

Not only is it true to say that a 'big risk' for one person may really be less risk than a 'smaller risk' for another, but it is also true that those two people could be the same person at different stages of their life. In fact, they could be the same person at the same stage of life but with two different investment targets.

The point here is that risk tolerance is not static – the level of risk you are willing to take will often change in response to your circumstances and the importance of achieving your target. An effective risk strategy must therefore be an ongoing and dynamic process.

How do Randalls help?

We use our expertise to safeguard our clients from unnecessary risk, manage healthy risk and increase the prospects of making their aspirations a reality.

We can only do this by getting to know our clients, their aspirations and risk parameters well and on an ongoing basis during our regular contacts.

This allows us to bring together the techniques of risk management and a deep understanding of our clients to add remarkable value.

Risks

Some of the key risks when investing are shown in the below table – this is not an exhaustive list!

Risk	Description
Inflation Risk	The cost of achieving the investment target becomes much more expensive than expected because of price inflation.
Interest Rates Risk	Changes in central bank interest rates can negatively affect the value of some assets.
Credit Risk	Changes in the credit rating of a company can negatively affect the value of some assets.
Company & Sector Specific Risk	When owning equity in a company you are exposed to the particular fortunes of that company and its sector.
Valuation Risk, Stockmarket Risk & Volatility	Where the capital value of an asset is based on market valuation (for example equities and property), future valuations may be less favourable than hoped for. This is true across whole markets as well as with individual assets. Market valuations can change erratically leading to dramatic short term price volatility.
Currency Risk	Where overseas assets are held, the valuation of these are based on the exchange rate between the relevant currencies. Negative changes in the exchange rate will lead to a reduced valuation to the investor.
Geo-Political Risks	Political and economic instability can have a highly negative impact on the valuation of assets exposed to these factors. This is more relevant in emerging and developing economies. World events, such as terrorism and changes in global supply and demand of oil prices and other commodities can also affect the value of assets.
Forced Seller Risk	This is where the investors circumstances mean that they have to sell volatile assets at short notice coinciding with a dip in value.