

# Attitude to Investment Risk

Attitudes to risk differ greatly between investors and the returns discussed do not take inflation into consideration.

The following offers a guide in order to attempt to provide definitions, which take no account of inflation. Whilst most suppliers' products will fall into these categories, there will always be exceptions.

For single premium investments (ie not pension plans) where income is being taken, the level of income for a given product type will affect the risk profile. In general terms, the higher the income taken, the greater the risk to the original capital.

For pension contracts, it should be remembered that the term of the policy in conjunction with differing personal circumstances can affect the risk profile.

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For large investments an actively managed portfolio may be appropriate. We normally consider such an arrangement to be classified as "moderate risk" but it may be possible to arrange a portfolio to take account of your own attitude to risk.

It should be emphasised that, the value of investments, and the income from them can go down as well as up and an investor may not receive the amount originally invested.

## Cautious Risk

A Cautious Risk protection contract is one where the premium may guaranteed to remain constant throughout the term of the policy and may also guarantee a predetermined sum payable on death. A Cautious Risk investment or pension contract would be one designed to guarantee a return of a minimum of the original investment at the end of the selected investment period.

### Examples of Cautious Risk investments:

- Guaranteed Income and Growth Bonds
- Guaranteed Stockmarket Products
- Annuities that fund Investment Products where a return of investment at maturity is guaranteed.
- Bank Accounts
- National Savings

## Low Risk

A Low Risk protection contract is one where the premium is either subject to review or the premium or amount payable on death is subject to sufficient investment growth being achieved.

A Low Risk investment or pension contract will be that designed for investors prepared to take a small element of risk to achieve a potentially higher return although a loss of capital may be experienced in unfavourable economic conditions.

## Examples of Low Risk investments:

- With Profit Bonds for growth or for annual income of up to 4% of the original investment.
- Distribution Bonds and some Single Premium Managed Bonds with a low equity content, taken out of growth only.
- Regular contribution savings plans or pension plans set up on a conventional with profit or unitised with profit basis or where contributions are invested in a Managed Fund with low equity content or Fixed Interest Fund.

## Moderate Risk

A Moderate Risk investment or pension contract is one designed to offer the potential for returns in excess of the original investment but where there is the possibility of incurring loss in unfavourable economic conditions, in investments where values can fall as well as rise, possibly in a short space of time.

### Examples of Moderate Risk investments:

- Single Premium Managed Bonds with high equity content.
- Unit Trusts investing in "Blue Chip Companies".
- Regular contribution unit linked savings or pension plans where investment is in a unit linked Managed Fund with high equity content, UK Equity or International Managed Fund.

## Higher Risk

A Higher Risk product or investment fund would be one designed for investors prepared to expose their investment to a level of risk offering the potential of high returns, but also the possibility of incurring high losses in unfavourable economic conditions, in investments where values can fall as well as rise, often within a very short space of time.

Higher Risk would also include products normally classified as "Low" or "Moderate", but where a high level of income is taken thus putting capital at risk.

### Examples of Higher Risk investments:

- With Profit Bonds where annual income in excess of 6.5% is taken, thus possibly eroding capital.
- Single Premium Equity Bonds.
- Unit Trusts investing in areas other than "Blue Chip Companies".
- Regular contribution unit linked savings or pension plans where investment is in a narrow geographic or economic sector, where both rapid increases and sharp reductions in values may be experienced, such as a Far Eastern or Japanese Fund.

This copy of **Attitude to Investment Risk** is provided for your retention.



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