Prudential Investment Managers
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How much investment risk can you handle

Risk is one of the most important concepts related to financial planning and investing. Unfortunately, it's also one of the most misunderstood. Your investment decisions are determined, to a large extent, by your appetite for risk. But there's a huge difference between your natural appetite for risky behaviour and your risk profile as an investor.

If you're a naturally cautious person – someone, say, who avoids rollercoaster rides and who always checks the 'best before' date on their food – then you may feel naturally inclined take a highly cautious, risk-averse approach to your investments. Similarly, if you're a bit of a daredevil – the type who goes skydiving on Saturdays and bungee-jumping on Sundays – then you may be tempted to take the leap into high-risk investments.

Either way, you'd be making a mistake. Your investment decisions shouldn't be based on your aversion towards risk in your everyday life. Savvy investors know how to separate their personality from their investment-risk profile. The two, after all, should be mutually exclusive.
Risk profiling is a crucial part of your financial planning process. Your financial adviser will help you to determine your risk profile by examining the amount of risk needed to achieve your investment

goals; how much risk you can afford to take; and your emotional willingness to take on risk.

Other key factors that also play a role include your investment goals and your investment time frame (also referred to as your investment time horizon). Based on these criteria, your financial adviser will assess your tolerance for investment risk and then use that information to help you make your investment decisions and construct an appropriate portfolio.

Your investment risk profile might end up being:

- Low – you're only willing to accept minimal losses and may have a short-term investment time frame.
- Low to medium – you want reasonably stable growth and are willing to take on a limited level of risk.
- Medium – you accept some volatility and are prepared to invest for five years or longer.
- Medium to high – you accept the risk/rewards trade-off, can live with volatility, and are looking to invest for up to 10 years).
- High – your focus is on long-term capital growth and you're willing to accept significant fluctuations in value, knowing that it might mean high returns in 10 or more years' time.

As you can see, your personality only plays a limited role determining your investment risk profile. The major factors are your time horizon, your access to cash, and your investment goal. And while you may worry (or not) about the level of investment risk you're taking on, your natural inclination to go skydiving without a back-up parachute over a lake of flesh-eating piranhas (or not) is only a small part of the overall equation.

The bigger picture shows you why you would need to separate your individual personality traits from the risk characteristics of your investment portfolio. Fortunately, Prudential has a range of fundsto choose from, each with their own risk profile and investment time horizon. Try our Fund Selector tool to see which Prudential fund best matches your investment objective.

For more information speak to your financial adviser. Alternatively, feel free to contact our Client Services Team on 0860 105 775 or email us at query@prudential.co.za.