M&G Investments
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Risk attitude versus return altitude: Nothing ventured, nothing gained

When it comes to investing, many investors simply want big rewards, without taking on any risk. But the reality is that to earn sufficient long-term returns, you do have to put your capital at some degree of risk. As they say, nothing ventured, nothing gained.

The extent to which you can tolerate risk is known as your risk profile, which is a useful, if imperfect, tool in structuring your investment portfolio. 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 willingness to take on risk.
Another key factor that also plays a role is your investment time frame (also referred to as your time horizon). This is the time between when you first invest, and when you will need that money.

Generally speaking, there are five basic risk profiles:

Low Risk: With these cash-type investments, investors can expect minimal losses, but also minimal returns that are unlikely to keep up with inflation. Over time, your capital is very likely to be eroded, and there is also the potential to miss out on higher returns. Here, a short-term time horizon would be most appropriate.

Low-to-Medium Risk: This involves taking some risks but usually with reasonably stable growth that will keep up with inflation as the end goal. The downside to these income-type investments (including bonds) is that this profile also probably will not provide the return expectations of higher levels of risk.

Medium Risk: This entails experiencing some volatility and is typically associated with investment time frames of five years or more. While investors should expect a fair return taking on medium risk, such as that associated with a multi-asset (or balanced) unit trust, there is also an increased chance of experiencing downturns along the way. Here some patience is required so as not to sell your holdings in a downturn and lock in losses.

Medium-to-High Risk: Investment profiles that fall within the medium-to-high range can accept different levels of rewards and risks for up to 10 years. Such portfolios would include meaningful exposure to listed property and equity, and experience greater volatility, which can be beneficial if markets are favourable, but detrimental if things don't go as expected. Remember that time smooths out investment returns, lowering volatility and therefore the risk of losses.

High Risk: High-risk investment strategies involve long-term capital growth with significant fluctuations in value possible over extended periods of time (10+ years). History has shown that portfolios holding mostly equities are likely to lead to bigger gains, but this profile carries the greatest elements of financial uncertainty and potential loss. Again, time lowers the risk of losses, so again you need a patient attitude to meet your investment goals over time.

Don't confuse your personal propensity to take risks with your investment risk profile. You may, for example, enjoy taking part in extreme sports such as abseiling and white water rafting, but that doesn't mean you'll be comfortable taking on a substantial amount of investment risk. Equally, if you have a natural aversion towards risky behaviour, it doesn't mean you won't be happy to take some risk in your investment portfolio.

So what is your attitude towards risk? M&G Investments has a range of funds to choose from, each with its own risk profile and appropriate investment time horizon. Try our Fund Selector tool to see which M&G Investment unit trust best matches your investment objective, risk profile and time horizon.

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