RISK
The True Four Letter Word

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RISK

- One of the first key factors when we talk to our financial advisors is RISK tolerance
- What would happen if we neglect some or all of the risks?
- We could:
  - Suffer losses
  - Run out of money quickly
  - Have assets but cannot sell it
  - See our asset value erode by inflation

RISK

- What would happen if we have a better handle on risk?
- We could:
  - Potentially get a reasonable return
  - Access our money easily
  - Keep pace with inflation
  - Make our money last longer

Risk Factors

- What type of investment risks are there?
- The most common risk factors are:
  - Investment risk – investment losses
  - Inflation risk – lose purchasing power
  - Liquidity risk – cannot sell when you want to
  - Longevity risk – outliving your money

Investment Risk

Investment Risk

- Why do we have stocks, bonds, cash and alternative investments?
- If we have all our eggs in one basket, we might have eggs all over our anatomy!

Investment Risk

- We need to have assets that behaves differently in the same economic condition
- When stocks are going up, bonds usually have lower returns
- When stocks tank, bonds can be stable, thus, creating balance to our portfolio

Investment Risk

- Stocks, bonds, and cash are soft assets. Many alternative investments are hard assets
  - ie. Real estate
- Different asset classes behaves differently
  - Balancing out risks
- I can give you a personal example

Inflation Risk

Inflation Risk

- If we buy a 5-year GIC, what do we get today?
  - 1.8%
  - Inflation is 2-2.3%
- Are we moving ahead or falling behind?
  - 2%(inflation) – 1.8%(return) = **-0.2%** (inflation adjusted return)

Inflation Risk

- Those who invest in GICs in the last 10 years, their yield is around 3%
- From 2012-2013 the average S&P 500 return is 6.5% even after the 2008 crash
- Some alternative investments provide a much higher return

Liquidity Risk

Liquidity Risk

- If we invest all of our money in real estate and none in other asset classes what would happen?
  - If funds are required for an emergency, hard to cash out
- Usually have to wait until maturity in order to cash out

Longevity Risk

Longevity Risk

- Retirees worst nightmare
  - Inflation – need to withdraw more than the minimum amount from RRIF
  - POOR MARKET CONDITIONS
- Leads to outliving your money FAST

Risk Factors

- To account for all four types of risk we need:
  1. Assets in different asset classes
  2. Investments with different correlations
  3. Have long and short-term focus
  4. A portion of our investments that is liquid

RISK

- That’s why we have different presenters this evening to introduce different programs to create a balance to our investment portfolio

True Diversification

If we do it right

- Less concern about the volatility in the stock market
- Potentially get more stable returns
- Access cash when we need it
- Less concern on longevity

Financial peace of mind is what we do

Questions?