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## Timely Tips – January 2011

### Understanding your risk profile

One of the crucial aspects to successful investing is understanding your risk profile. How willing are you to accept fluctuations in the value of your investments?

If you choose a 'balanced' profile, it generally means you are willing to take a moderate amount of risk with your investments and probably have a combination of higher risk investments, such as shares, together with lower risk investments, such as Government bonds.

The problem with risk profiling is that an investor's risk tolerance is dynamic. Interestingly, in a bull market, when asset valuations tend to be higher, investors are often more willing to take on a higher level of risk. In a bear market, however, when valuations tend to be lower and therefore asset prices less expensive, investors tend to be more risk averse. In essence, our risk tolerance tends to increase at the exact time we should be scrutinising our portfolios the most!

So, how do we get away from this kind of thinking? One way is to set a savings goal and only take as much risk as is needed to reach your target. Even as markets move up and down, the overall level of risk will remain the same. That way, you are not tempted to stretch your risk tolerance just because markets are strong.



Another way to look at your risk profile is to look at age-based risk profiling.

Investors in the accumulation phase might be more willing to take on a higher degree of risk in their portfolios because of their stage in life. Generally, these investors will have a longer investment time horizon and/or earnings capacity, allowing for more time to ride out the volatility in markets.

As an investor gets closer to retirement and looks to start drawing down their accumulated funds, their risk profile is likely to become a little more conservative, simply because losses at this later stage of life are harder to recoup as there is less time available.

In the retirement phase, an investor can use an appropriate combination of both of these strategies. The population is ageing; people are now living longer. To meet their expected lifespan, investors need to manage their accumulated pool of savings by targeting a certain level of earnings. What does this mean?

For a risk adverse investor, who avoids shares and other more volatile investments, the biggest risk is that their savings run out before they do! Investors, therefore, may need to consider holding a portion of higher risk investments in order to meet their overall retirement needs; being mindful however, to limit that exposure to manage any market volatility.

Source | IOOF



### Did you know?

- The word *millionaire* was first used by Benjamin Disraeli in his 1926 novel *Vivian Grey*.
- The term 'blue chip' comes from the colour of the poker chip with the highest value – blue.
- The first credit card was issued by American Express in 1951.
- The \$ sign was designed in 1788 by Oliver Pollock.

(source: Did you know? Facts by Google)



## Protect what's most important to you – facing the facts about underinsurance

No one likes to be negative or think the worst might happen. However, the reality is that sickness and injury can affect people of all ages and lifestyles at any time.

No matter who you are, we all want to protect what's important in our lives – whether that's our family, house, income, car or other assets.

### Uncovered – Australia's underinsurance crisis

Research suggests two-thirds of Australian families with dependent children living at home **do not** have enough life cover to meet expenses for more than one year if the breadwinner were to die.

Are you and your family prepared if the worst occurred? What debt and financial responsibilities would be left behind? How long would the family savings last?

## Insurance and your super fund

Many members of super funds receive an automatic basic level of life insurance cover via their super account. Your employer may even subsidise the cost of premiums by making additional contributions.

While a basic level of cover will provide some support, it may not be enough to cover you and your family in the case of a serious accident or illness which leaves you unable to work.

How long could your family maintain its current lifestyle if you were unable to work or were no longer around to support them anymore?

Keep in mind that an Australian family spends \$537,000 on raising two children from birth to 21 years.

### Protect what's most important to you

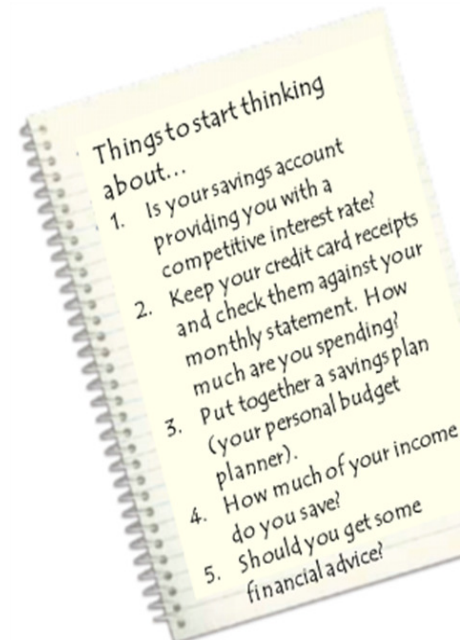


Your personal and financial situation will change throughout your life.

It is important that you regularly review your insurance arrangements and ensure they meet your current and changing needs.

Ensure you have enough cover to protect what's most important to you. Speak to your financial adviser who can help you calculate the right amount of insurance cover for your personal situation.

Source | OnePath



Source | First State Investments (Singapore)

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