



# Risk and Return

## Find the right balance for you...

- > The key to managing risk and return is balance.
- > Your goal as an investor might be to maximise returns from your investments, but, just as in everyday life, investments carry risks.
- > Fortunately, there are ways to be more comfortable with the risks you take to achieve your desired returns.

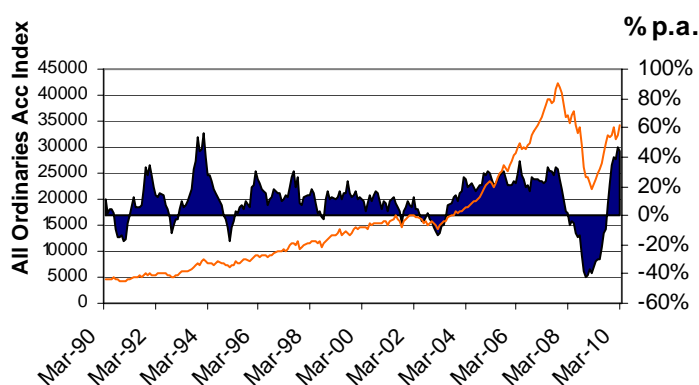
## Risk and market volatility

Some investors choose to time the share market by making their own judgement based on short-term market movements; however, this can add risk, as a share in one company may produce good returns one year, but may fall the next. Conversely, a poor performing share may excel later. The graph shows the return from the Australian sharemarket over the last 20 years. The bars represent the annual returns, as you can see there can be good returns one year and negative returns the next - demonstrating how difficult it is to predict how markets will perform.

Market volatility can seem like a big risk when it comes to investment. In an increasingly globalised financial arena, market volatility can increase the risk that you will lose cash, time or financial security. But volatility can also work to your advantage, so that you succeed financially.

Other investment risks can include inflation or simply not choosing investments appropriately for your objectives and time frame. Also, make sure you understand the risk involved with investments that offer high returns.

Australian Share market - March 1990 to March 2010



The blue bars represent the annual returns (RHS), as you can see there can be good returns one year and negative returns the next - demonstrating how difficult it is to predict how markets will perform. The Orange line represents the All Ords Accumulation Index (LHS)



## Managing risk – how much are you willing to accept?

As a rule of thumb, investments offering high returns are generally higher risk. For example, investing in a new company may be high risk but it has the potential to provide good returns if later successful. Alternatively, investing in a well-known company might be minimal risk, but thousands of other shareholders may mean limited return.

Ultimately, managing your investments will depend on how much risk you are comfortable to accept.

**What's your risk profile?** It is also a good idea to determine your risk profile before investing. Tolerance for risk is personal – so once you determine how much you can accept, it will help you decide which investments will suit you. Your risk profile will also depend on your goals and time frame – are you investing long-term or short-term? Short-term goals can include buying a new car, or saving for a holiday, while long-term goals may be retirement or your child's education.

Investors close to retirement sometimes choose investments with less risk such as fixed income investments. This option carries less risk, and the return can be achieved over a short-term.

Investment in a managed fund or in long-term bonds can be more appropriate for new investors and those who have more time to save for retirement or long-term goals. The risks of the short-term are less important relative to the returns over time.

The table on this page is a guide that will assist you and your adviser to determine your risk profile. Based on this, together with your specific goals and objectives, your adviser will recommend suitable investments.

Risk profile	Investor characteristics	Level of risk	Level of return	Investment objective
Capital secure	Investors with low risk tolerance and/or short time frame	Low	Low	1-2 years
Conservative	Investors with low risk tolerance and/or medium investment time frame	Low - moderate	Low - moderate	2-3 years
Moderate	Investor with moderate risk tolerance and/or medium investment time frame	Moderate	Moderate	3-4 years
Balanced	Investors with moderate risk tolerance and/or long investment time frame	Moderate-high	Moderate-high	4-5 years
Growth	Investors with moderate-high risk tolerance and/or long investment time frame	Moderate-high	High	5 years
High growth	Investor with very high risk tolerance and long investment time frame	High	High	7+ years

**Diversification** - One way to reduce risk is through **diversification**. By diversifying your investment portfolio across different assets, sectors, and countries, you are spreading investment risk if one area under performs.

**Do your homework** - It is also a good idea to improve your knowledge, and to research the market and your potential investment area. This will help you understand exactly what risk is involved.

**Don't set and forget** - With any investment, consider professional advice and maintain regular reviews with your Count adviser to keep your investments on track. As your situation changes, so may your risk profile and needs.

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