

First assess your tolerance to risk

Brian Foster, partner at Oxford-based Critchleys Financial Planning, responds to queries over the best investment bet during the credit crunch

I have been asked this question a number of times recently and it reminds me of the difficulties we face as financial planners in dealing with typical investor psychology.

The answer to the question is: "We don't recommend betting on assets — that is gambling, not investing, and there is a big difference".

Exposure to risk-based assets over a short period is speculation and relies mostly on luck. Exposure to risk-based assets over a long time is an investment, because time has the effect of balancing out short-term risk.

The problem with making short term bets is that you have to keep making them, and you have to continually be right.

For most of us, this strategy relies entirely on luck and is proven not to work. Some clients tell me they enjoy speculating on assets. It's the thrill of the chase.

That's fine as long as you have the spare capital to potentially lose and are not going to whine if it all goes pear-shaped, but it is not the right strategy for the money you rely on to meet your lifetime goals. For most people, the best advice during a credit crunch is the same as the

one during an economic boom.

☐ Ensure you have sufficient capital in cash for emergencies and any planned expenditure. That way, if anything unexpected happens, you won't have to call on your long term investments.

☐ Understand the time horizon that you have for the investment.

☐ Understand what annual return is required to meet your goal, or reach an outcome that is acceptable.

☐ Put together an asset allocation strategy that will most likely meet this annual return with as little capital risk as possible.

☐ Determine whether the likely portfolio volatility will be inside your personal tolerance to risk. If it is too risky, then you may have to reduce your expectations for returns or change your goal, or add more capital.

☐ Monitor the performance over time to ensure the results are as expected and re-balance the portfolio to maintain the asset allocation. It is inevitable there will be short periods of time when things go really well, or really badly. By having a mix of non-correlated



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assets, you will have reduced the effect of short-term volatility as much as possible. Ignore the short-term performance of each of the components in the portfolio and focus on its longer term average performance as a whole. If this all sounds like its outside your expertise, or

you want help, then professional assistance from a financial planner and an investment manager will most likely achieve the desired outcome.

This is certainly not the most exciting way to invest money and there are rarely guarantees of success, but it is the most effective. If its excitement that you are looking for, I suggest that you make a trip to Newbury Racecourse and make some short-term bets with money you can afford to lose.

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