

# **Risk: Investments vs. Lifestyle**

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Risk is a powerful investment consideration. Most investors get it wrong.

Many investors want to eliminate risk and in the process of eliminating risk, they take on more risk.

We should start with a factious client interview. In answer to financial objectives questions the response outlines their financial goals.

The most often heard desires are to prepare for a financially secure retirement. Company pensions are not available or not adequate and therefore financial self sufficiency is the number one objective.

Then the conversation shifts to investing preferences and in many cases, the client asserts that they do not want to lose money. Losing money is normally based on short term time frames such as quarterly or yearly.

Here is where the problem starts. The retire comfortably objective is a long term objective.

The investment strategy is based on not losing money during the short-term. The culprit is the clients' expectations.

Rule one is there is no such thing as "no risk".

There is always risk. The risks are different and the individual has to decide which risk is more important. Inevitably, there is always a trade off.

For example if an investor is preparing for a financially secure retirement, they will invest heavily in equity investments. Using history as a guide, the probability of growing assets through equity investing over a long time frame is extremely high.

That client has a high chance of being financially prepared for retirement.

The trade off is that equity investments are volatile and there will be specific years that they will lose money. In the long-term they are alright but not always in the short-term.

Alternatively, if their priorities are to not lose money year-to-year, then that takes a different approach. A good option is to invest in GICs.

GICs pay regular interest payments and the principle is guaranteed. Just do not expect that you will be in good shape for retirement because you will not.

As mentioned above, risk is everywhere. The trade off should be based on time.

Time is the most important consideration in the whole risk reduction process.

If you have a long time frame then short term volatility should not be the deciding point. Over the long-term, equity investments have proven to be the best alternative.

If after ten or twenty years you get the kind of growth that you wanted, does it really matter if during some of those years you actually lost money?

If you get to retirement age and do not have enough money, does it really matter that you never lost money during any one-year period with your GIC portfolio?

If your time frame is short then the GIC route is more prudent. If you have saved to buy a house next year, have children requiring financial assistance for their education next September, you should be more cautious about short-term market volatility.

The solution to this ongoing conflict of short-term and long-term objectives is to spend more time evaluating and carefully considering your financial goals. What is most important to you?

What are the future lifestyle consequences of your investment decisions? What risks can you tolerate and which can you not?

Success will come from continuing to monitor your most important financial goals.

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