SAFETY ▪ STRENGTH ▪ STABILITY
UNIT TRUST CORPORATION

ADVISORY SERVICES DEPARTMENT

Newsletter

www.ttutc.com/advisory-services

Q4 2016 | ISSUE 8

HOW TO BE MORE **RISK DIVERSE,** NOT **RISK ADVERSE**

A person's risk tolerance is extremely important to proper financial planning as risk is at the core of any investment decision. Ultimately, one cannot make any money without taking some risk and we do know that excessive or irrational risks can be disastrous. However, our UTC Financial Advisors have indicated that they have seen numerous clients in Trinidad and Tobago who have developed investment portfolios that are so risk free that they are also return free, which then limits investors from achieving their long-term investment goals.

One clear definition of risk tolerance, according to *Personal Financial Planning: Theory and Practice* (Dalton and Dalton, 2003) is, "The level of risk exposure with which an individual is comfortable; or An estimate of the level of risk an investor is willing to accept in his or her investment portfolio." Therefore, your comfort with risk, which refers to how you feel about market volatility, is an important part of making investment decisions. Specifically, how will you respond when investment values decline unexpectedly? Will you fret over the losses and sell your holdings to prevent a further decline? Or can you remain calm and stick to your investment strategy?

A quick and easy way to help you determine your comfort with risk, would be to determine which of the following you would feel the most comfortable with after investing $5,000 for one year:

A - loss of $80 or a gain of $300
B - loss of $500 or a gain of $900
C - loss of $1,800 or a gain of $2,000

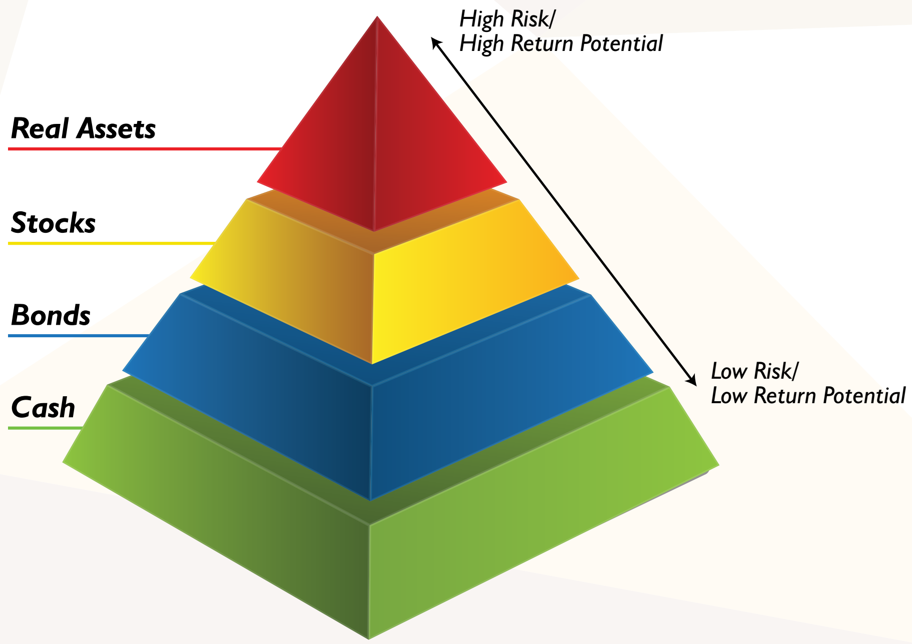
If you chose **A,** you would be considered a low-risk investor; if you chose **B,** you would be considered a medium-risk investor; and if you chose **C**, you would be considered a high-risk investor.

Certainly, each investor needs to invest based on a level of risk that they feel comfortable with in terms of their own personal risk tolerance. Yet, by the same token, investors should aim, over the long term, to feel perfectly comfortable with a sensibly diversified and well-managed medium-risk or even high-risk portfolio, rather than leaving money in a savings account, which is being eroded by inflation.

To become more risk diverse, an investor will firstly need to look at their investments and determine the main asset classes they are invested in. The investor should then aim for an allocation among the different asset classes, such as stocks, bonds and real assets. Asset allocation is an investment strategy that attempts to balance risk versus reward by sharing up the portfolio's assets based on the investor's risk tolerance, goals and investment time frame.

How do you select the right asset allocation for you? Some financial advisors offer a simple strategy where you minus your age from 100, and this should be how much you should have invested in equities and the rest should be invested in fixed income and cash. You can achieve this recommended allocation by investing in mutual funds which are invested in equities, such as the UTC Growth and Income Fund. This gives you the benefit of diversifying your investments to local and international equities, without having to manage the portfolio for yourself. Given that this fund also has a three-year guarantee, you also benefit by increasing your allocation to riskier assets, but with less risk.

Risk/Return Trade Off



The consensus among most financial professionals is that asset allocation is one of the most important decisions that investors can make to affect their portfolio performance. A landmark study by Brinson, Hood and Beebower, "Determinants of Portfolio Performance (1986, 1991)" argues that asset allocation accounts for 94% of the performance of a portfolio, leaving market timing and stock selection to account for only 6%. In other words, your selection of individual stocks or bonds or mutual funds is secondary to the way you allocate your assets to equities, fixed income instruments and cash. Asset allocation is very important to an investment strategy as different asset classes offer different returns and they are not all correlated.

1. Ascertain your personal goals and objectives

If your goals are mostly long term, or longer than five to 10 years, then you can invest more into equities as your portfolio has the time to ride out short-term fluctuations in the stock market. However, if your goals are more immediate in nature, such as within the next three to five years, then your portfolio should be invested more heavily in fixed income and cash, which are not as volatile.

2. Understand Your Personal Risk Comfort

The risk-return tradeoff means that low levels of uncertainty or low risk are associated with low potential returns, whereas high levels of uncertainty or high risk are associated with high potential returns. However, if you cannot sleep at night when markets are fluctuating and gyrating, then you should have a higher proportion invested in fixed income, and attempt to slowly add equity investments to your portfolio.

3. Develop Your Financial Knowledge

The best way to become more risk diverse is to develop your knowledge of financial assets and investing. The more you learn, the better equipped you are to navigate these financial markets and build a portfolio that is right for you.

4. Ask For Help

Speaking to one of our Financial Advisors will ensure that you make decisions on your investments based on your long-term goals and objectives, while taking into account your personal risk comfort. Your Advisor can also recommend an asset allocation strategy for you and realign your portfolio to better manage your risk.

ASSESS YOUR RISK PROFILE:

https://www.fidelity.com.hk/investor/start-investing/understanding-your-needs/tools-calculators/risk-assessment-questionnaire

https://personal.vanguard.com/us/FundsInvQuestionnaire

http://www.advisor.ca/my-practice/evaluating-risk-tolerance-a-sample-questionnaire-30669

http://www.valeofinancial.com/profile/

Mail: Ms. Amoy Van Lowe
Vice President
UTC Advisory Services
3rd Floor, UTC Financial Centre
82 Independence Square
Port of Spain

Tel: 624-8648 Ext. 8113

Email: yourwealthmanager@ttutc.com

About the Advisory Services Department

The Advisory Services Department of the Trinidad and Tobago Unit Trust Corporation was established to serve our valued clients seeking financial and investment advice and solutions from a trusted service provider. We will assist you in enhancing your personal wealth and financial well-being by providing you with financial counselling, investment advice and solutions.

www.ttutc.com/advisory-services

SAFETY ▪ STRENGTH ▪ STABILITY

UNIT TRUST CORPORATION