Understanding Risk

CANTOR FITZGERALD INSIGHTS

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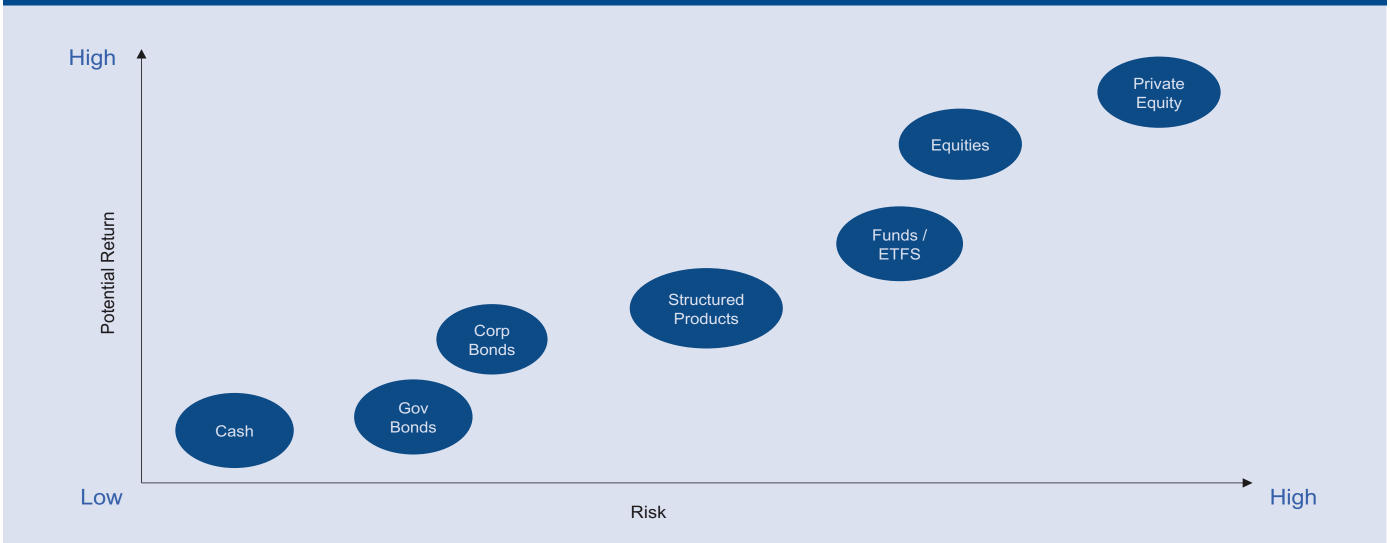
Risk & Reward

In its purest form, the concept of risk and reward refers to the Euro return an investor can reasonably expect to earn for every Euro of risk taken. This risk/reward ratio should form an essential part of any investment decision.

Asset Classes & Associated Risks

Different asset classes, for example equities, bonds or private equity, all have different risk profiles and their respective weightings within your portfolio can dramatically shift the level of risk you undertake.

RISK V REWARD RELATIONSHIP



Typically, there are three broad types of risk class – low, medium, and high risk

Low risk: assets are usually more secure with lower returns. For example, capital secure investment with a low investment yield.	• Cash • Government Bonds • Corporate Bonds • Capital Secure Structured Product
Medium Risk: assets contain an element of income or yield and a moderate potential for some capital return; you are risking some capital for a higher return than cash/ government bonds	• Structured Product with some but limited capital exposure. • Value based equities with a dividend history and low level of gearing and earnings volatility. • An ungeared Exchange Traded Fund based on a large equity index such as the S&P 500 or the MCSI Equity Index. • Ungeared property investments with sitting tenants
High risk: assets where you risk a percentage or all your capital to make a multiple return of the risk taken if successful	• Volatile equities such as small market capitalization without a track record of earnings, • Private Equity investments, • Geared property investments

Investment Horizon

How long you invest is important in terms of the risk level of your portfolio. The longer you can hold an investment that is loss making, the greater the chance of recovery of any initial losses. But it does not always mean you should retain an investment that is not performing; many investors make the mistake of selling profitable investments and holding losing investments. If you are only prepared to invest for a short period, you should take little or no risk.

Understanding Your Attitude to Risk (ATR)

As well as what risk you should take relative to your financial circumstance and your financial experience; you should consider what risk you should take relative to your own personal appetite for risk or what we term your Attitude To Risk (ATR); often driven by your personality and your history in investing.

Initial poor investment performance can arise immediately post an investment. If you buy an underperforming share because you believe the market has not correctly accounted for the value in the stock; momentum may cause the share price to continue to fall initially. You must consider what is your likely reaction in circumstances such as these. A divestment decision made in haste, because you have a low ATR; may result in selling at the worst moment. Also your ATR can change gradually or indeed suddenly; including arising from personal circumstance such as losses on other investments, changes in your financial or employment circumstance.

RISK/REWARD

At Cantor Fitzgerald we classify clients according to their ATR

- **Very Cautious Investor:** You are a 'low risk' investor. You are likely to accept limited risks with your portfolio and will want to try to avoid large fluctuations in the value of your investment, accepting the prospect of more modest returns to achieve this.
- **Cautious Investor:** You are likely to accept some risk in return for the potential of higher investment gains over the long-term. You want to try to avoid large fluctuations in the value of your investment, but accept there will be some fluctuation, particularly over the short-term
- **Considered Investor:** You are a 'medium risk' investor. You are likely to accept significant risk in return for the potential of good investment gains over the long-term. You accept there will be significant fluctuations in the value of your investment, particularly over the short-term. However, you will want to limit the amount of your fund held in more risky investments.
- **Considered Risk Taker:** You are likely to understand that the value of your investment can go down and up sharply with the potential for greater returns over the long-term.
- **Risk Taker:** You are likely to aim for high possible returns and accept higher levels of risk, recognising that the value of your investment may fluctuate very sharply, particularly over the short-term

At Cantor Fitzgerald we both ask you for and then test your stated ATR as a key determining factor in reaching investment recommendations for you. We endeavour to review any concerns we have where this ATR is inconsistent with other information and objectives provided.

DUBLIN: Cantor Fitzgerald House, 23 St. Stephen's Green, Dublin 2, D02 AR55. Tel: +353 1 633 3800.
CORK: 45 South Mall, Cork, T12 XY24. Tel: +353 21 422 2122.
LIMERICK: Crescent House, Hartstonge Street, Limerick, V94 K35Y. Tel: +353 61 436 500.
@cantorIreland Cantor Fitzgerald Ireland Cantor Fitzgerald Ireland
www.cantorfitzgerald.ie