

Understanding Risk

An Excerpt From The Book “Here's The Plan”

By Author And Speaker, Dixie Allen

Risk – The word itself evokes a fear of loss and threat to your safety. The majority of investors consider Loss of Initial Investment to be the only form of risk. This type of risk is one of permanent nature, it can occur when an investment is sold for less than its original cost.

If your investment fluctuates in price, that's not a loss – it's simply the day-to-day movement of the value of the investment. All investments fluctuate in price daily, look at your car, your home, your art work, but investment risk depends on the type of investments you're holding, and the time horizon over which they are held. A mutual fund can be invested entirely in GIC's – that makes it very low risk.

Investment loss can sometimes be attributed to investor behaviour. During market downturns, people panic and sell good investments to “stop” the loss. If you have a well-balanced, managed portfolio during this time, the majority of those investments will recover.

A Loss of Purchasing Power can be just as powerful a risk, Loss of purchasing power is the loss of your money today and in the future, and the ability to be able to acquire the goods and services needed to maintain your lifestyle.

If your investment capital has not grown sufficiently to keep pace with the cost of your needs, your dollars are losing purchasing power for the basic necessities. Basics are not longer just bread, milk and postage stamps. Remember a time without GST and satellite television?

No one can be sure what new basic costs will arise. What you can plan for, is the likelihood that it will cost more in the future to live in the same manner of comfort as you do today. Your investment pool and base capital must keep pace with the increasing cost of living and the cost of maintaining your lifestyle indefinitely.

The critical choice you must make about risk is the decide what type of risk you are willing to take while understanding the potential results of your decision. Your Financial Advisor can provide you with assistance understanding and planning for all these matters.



Submitted by Dixie Allen

The Author of the book “Here's The Plan” and a noted public speaker. Owner, D.R. Allen Financial Group, Senior Financial Planning Advisor, Vice President and Branch Manager at Assante Capital Management Ltd. can be reached at 416-441-4146 x: 321

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