Steve Dodge of the Independent Financial Advice Centre asks how “risky” are you?

In these days of continuing low interest rates, many people are turning to stock market investments to generate the higher regular income they need, particularly as inflation is pushing up prices faster than incomes.

Although interest rates are due to rise shortly, only real asset investment, i.e. property and shares, can provide a rising income year on year in the long term. Why? Well simply put, as inflation pushes up prices and thus company profits, this means increasing dividends i.e. higher income.

Investing in shares however introduces the concept of risk and one of the tasks Independent Financial Adviser’s have to do when meeting clients is identify how “risky” a person they are.

Why take risk? Well you have no choice; risk is inherent in everything where money is involved.
Even Premium Bonds are "risky". Unless you are lucky enough to win a (very rare) large prize you will receive no regular income from or capital growth on your premium bonds.

The higher the degree of "risk" you are prepared to take the higher the potential return could be (there's no point in taking the "risk" otherwise!) BUT the higher the "risk" the higher any losses could be.

We have always overcome the "risk" problem using "Spread" i.e. not having all ones “eggs in one basket” in simple terms. Just investing in Tesco shares alone is riskier than investing in Tesco and Sainsbury's shares, most of us will buy food at one or the other! To make life easy we normally suggest investment in Unit Trusts, which invest in around 50 companies or more giving a large spread of shares very economically, reducing risk considerably.

We recently developed a “risk assessment questionnaire” designed to try and help you (and us!) identify the level of investment risk you are prepared to take in order to achieve your objectives, which are normally: -.

- Real capital growth (a rate of return higher than inflation). A real rising income (as inflation increases your costs, your income must rise!) and avoiding tax.

Different areas and types of investment carry different levels of risk and by changing the "mix" of different types of investment we can match your portfolio to the level of risk you are prepared to take.

For example cash (money in banks or building societies) is no risk in the short term but high risk in the long term, as your capital does not grow and interest rates cannot rise every year. (No one could afford their mortgage!) Shares in overseas companies, are high risk because currency movements can increase or decrease any gains or losses made on the shares.

How “risky” are you? Find out by visiting our web site www.ifac.org.uk where you can download a copy of our risk assessment questionnaire, 2 pages and 10 easy questions; tot up your point score, and see how “risky” you are; it may surprise you! The site also gives more information on investing for income which you may find useful.