

RISK ASSESSMENT

Before we are in a position to give you any investment advice it is important that we ascertain the level of risk that you are comfortable taking.

For these purposes, we define risk as volatility; this is how quickly the price of your chosen investment can change. A cash deposit, which gradually accumulates interest, will have a very low volatility whereas the price of an individual share or basket of shares is likely to fluctuate more widely.

Our investigations have revealed the following figures. The quantum is not as important as the relative position between the different types of investment.

Cash deposits	0.1
Property	0.5
Fixed interest	1.1
Cautious managed fund	2.1
Balanced managed fund	3.5
Stockmarket managed fund	4.3

NOTE:

A cautious managed fund has up to 60% in equities, a balanced managed fund up to 85% in equities and a stockmarket managed fund up to 100% in equities.

Whilst these figures will change over time, it is likely that the relative position will remain constant and it is reasonable, therefore, to assess risk in these terms.

When assessing the risk that you are taking, we will exclude the value of the house that you live in and any second property – but we will include property let for an income – and an agreed cash/emergency fund which might amount to six months net spendable income.

The balance of your assets, including your pension arrangements, will then be taken into account.

An individual who has 50% of his assets in equities with the balance invested equally between cash, property and fixed interest, will own assets with an average volatility of 2.4. An investor who is more cautious and has 75% of his assets split between cash, property and fixed interest and 25% in equities will have an average volatility of 1.5. A more adventurous individual might have 25% amongst the three lower volatile asset classes and 75% in equities which will carry an overall volatility of 3.4.

Therefore, we use these three benchmarks as a template. This enables us to define five different risk gradings for clients. The very cautious individual will have an overall volatility of up to 1 whereas the cautious individual will have a portfolio with an average volatility of between 1 and 2. The balanced individual will have a volatility of 2 – 3 whereas the adventurous individual will have a volatility of 3 – 4. Anything above 4 must be classified as aggressive.

With the benefit of these notes and a discussion with your advisor, you should be able to describe the risk you are happy to take with your portfolio. Where we are offering a full advice service, we will look at your overall risk position. Where we are giving limited advice we may recommend an investment which will fall into the category you now indicate is of an appropriate risk level without taking into account your other assets.

You should be aware that the volatility levels were assessed at 1st April 2003 and may vary somewhat at the time we assess your risk but they remain relevant for the purposes of this exercise. You should also be aware that whilst our recommendations will ensure that you fall within the appropriate bracket at the time of providing advice, subsequent movements in the value of your investments may change the risk profile by reference to our guide but it is not our responsibility to suggest changes to a portfolio to remain within agreed parameters. This may be considered at future reviews but we will not provide an ongoing monitoring service.