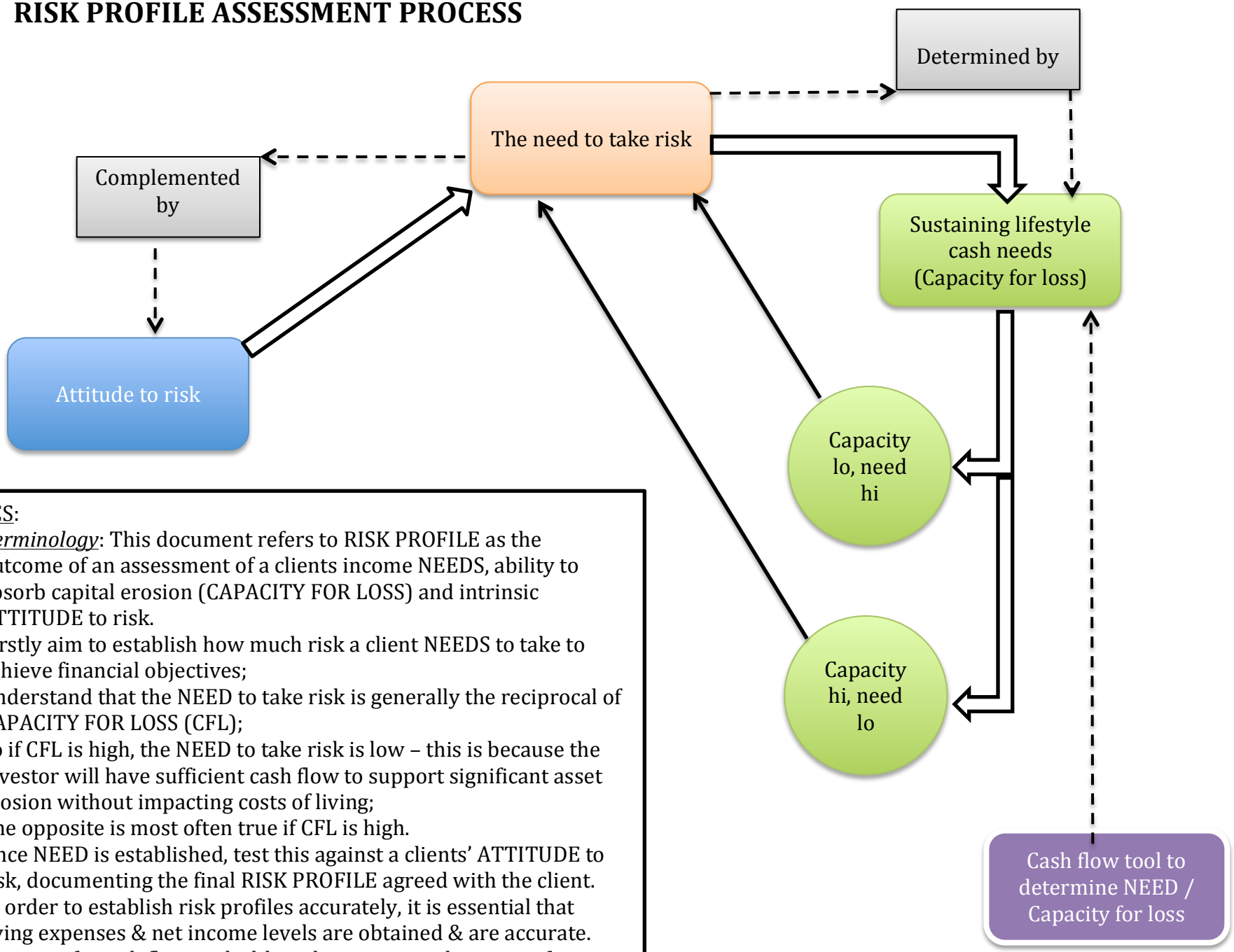
RISK PROFILE ASSESSMENT PROCESS



NOTES:

1. *Terminology*: This document refers to RISK PROFILE as the outcome of an assessment of a clients income NEEDS, ability to absorb capital erosion (CAPACITY FOR LOSS) and intrinsic ATTITUDE to risk.
2. Firstly aim to establish how much risk a client NEEDS to take to achieve financial objectives;
3. Understand that the NEED to take risk is generally the reciprocal of CAPACITY FOR LOSS (CFL);
4. So if CFL is high, the NEED to take risk is low – this is because the investor will have sufficient cash flow to support significant asset erosion without impacting costs of living;
5. The opposite is most often true if CFL is high.
6. Once NEED is established, test this against a clients' ATTITUDE to risk, documenting the final RISK PROFILE agreed with the client.
7. In order to establish risk profiles accurately, it is essential that living expenses & net income levels are obtained & are accurate.
8. The use of a cash flow tool, although not essential, is a significant help in determining CFL and NEED. It can also be an efficient use of a firm's time, and provides a permanent evidential record.