

S JOHNSON WEALTH MANAGEMENT LLP

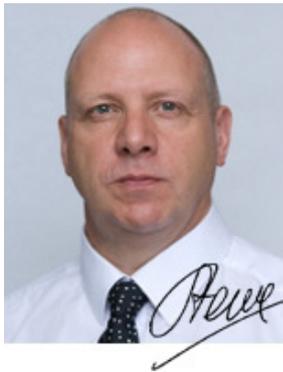
INVESTMENT SPECIALISTS

Risk & Return - Balanced Investing

Investment News

January 2018

Introduction



Risk and Return

In this issue I look at ways of managing risk when investing. I also consider investment in intangibles.

Market Commentary

UK economy Brexit slowdown. Crypto currencies measure emotions.

Managing Risk – Types of Investment Risk

Most people think of risk as a bad thing - however a textbook definition of risk is the uncertainty of loss OR profit and careful management of investment risk can be worthwhile, especially given that leaving money on deposit will lead to loss in real terms – when current returns are compared with inflation.

Investment risk may be divided into two parts, systemic and non-systemic:

- Systemic or market risk is big risk that affects lots of stuff and examples include interest rate changes, inflation, government policy or even Presidents Trump and Kim Jong Un agreeing to meet at the back of the bike sheds after school. The outcomes can be good or bad (aside from the last example).
- Non-systemic (specific) risk applies to specific companies or industries. For eggsample Mrs Edwina Currie's well known comments had a negative effect on chicken farming.

Non-systemic Risk

This can be reduced or eliminated by buying investments that do not correlate:

The classic example is buying shares in both ice-cream and umbrella manufacturers. In dry years your ice cream shares would do well but your umbrella shares would not. The sensible thing might be to buy a share in each so that you would not have to worry about the weather any more, hence reducing this aspect of your risk.

Investments that behave like the umbrella and ice cream shares are said to be 'negatively correlated', that is they move in opposite directions given the same piece of news. Investments that move in the same direction on the same piece of news are 'positively correlated'. To reduce risk exposure, you should pick investments with low or negative correlation.

Systemic Risk

This is more difficult but there are investments for all occasions; examples here include holdings in precious metals funds and industries that cater for difficult times - or even profit from them (arms manufacturers and the like).

SUMMARY

The application of the above is a fine balancing act since to eliminate all risk means that you go nowhere; it is ultimately necessary to take a view and to accept some risk when investing.

Review & 'Financial Medical' service

Our offer of a free review of your existing investments or a strategy report for new investment clients is still open; call us if you would like a chat.

And finally...

Please continue the feedback – telephone us or send an email. In the next edition I look at managing risk.

P.S.

Intangibles. The most valuable company in the world owns virtually no tangible assets. There was a time when banks would take a charge over property, machinery, plant etc. as security for lending money. They cannot do this with ideas since they are far more moveable. Interesting to know then how the future will be financed. From an investment perspective this also brings challenges.

The company referred to above is Apple. In common with Apple, Facebook (FB) has relatively little in the way of tangible assets. However there is indisputably value there and one indication of this is its ability to define personal relationships. Starting with a 'friends' declaration on a FB page people can progress to 'in a relationship'. This does not indicate that users have boyfriends or girlfriends – just that they have taken a step along complicated electronic courtship rituals which have multiple stages. One of the benefits is convenience – it is not now necessary to write a 'Dear John' letter to split up – you just unfriend someone on FB and job done. You do not even need to inform your friends of your new status as they know at the same time as your sudden ex. I now keep an eye on my wife's FB page to see how I am doing.

P.P.S.

FOMO – an acronym which stands for 'fear of missing out'. In the old days we called this greed and FOMO now seems to be driving the current crypto currency world. The FTSE 100 measures equities, iBoxx indices measure bonds. Whilst most indices are affected by feelings I have decided that crypto currency values are a direct indicator of emotion.



This document should only be read by those persons to whom it is addressed and is not intended to be relied upon by any person without subsequent written confirmation of its contents. Accordingly, S Johnson Wealth Management LLP disclaim all responsibility and accept no liability (including in negligence) for the consequences of

any person acting, or refraining from acting, on such information prior to the receipt by those persons of subsequent written confirmation.

This message and any files transmitted with it are confidential and intended solely for the use of the addressee. If you have received this message in error please notify the sender and destroy all copies of the message and any attached files. We make every effort to keep our network free of viruses but take no responsibility for viruses once this email has been transmitted. S JOHNSON WEALTH MANAGEMENT LLP ARE AUTHORISED & REGULATED BY THE FINANCIAL CONDUCT AUTHORITY.

S Johnson Wealth Management LLP, 348 Bromford Lane, Ward End, Birmingham. B8 2RZ

[Send me your feedback on this newsletter](#)

Click here to [unsubscribe](#).

www.RiskAndReturn.co.uk



[Visit our Facebook page](#)

Tel: 0121-327-1977 / Fax: 0121-327-5139