

There's no two ways about it – investing is risky business. But being a risky decision isn't necessarily the same as being a bad decision. As we take on some risk, we may also open ourselves to greater reward. With all this talk of risk and reward, how do we identify which investing pathway is best for us?

While what we choose to invest in, and how we choose to invest, is personal to each of us, there are some key steps and investing principles to help guide our investing journey that even the most sophisticated investors consider when making sound financial decisions.

Five ways to manage risk when starting to invest

- Understand your timeframe
- Understand your personal risk appetite
- Apply diversification
- Manage environmental, social and governance risk
- Do your research

1. Understand your timeframe

A common question is, where do I start? The best place to start is knowing your investment goal and your timeframe aka when do you want to access the money? Use a [Compound Interest calculator](#) or [Savings Calculator](#) like these MoneySmart ones to play with saving and investing scenarios to start to help you work out approximately how much you need to be investing, and what returns you may want to aim for to reach your goal/s.

Start with identifying your investment timeframe or 'investment horizon'. How many years do you plan to invest to reach your investment objective? For example, are you saving to buy a block of land in 7-8 years, or for retirement in 30 years? You may have more than one goal.

Investment Goal 1		
I need...	\$ _____	in _____ years
To fund...	_____	

Investment Goal 2		
I need...	\$ _____	in _____ years
To fund...	_____	

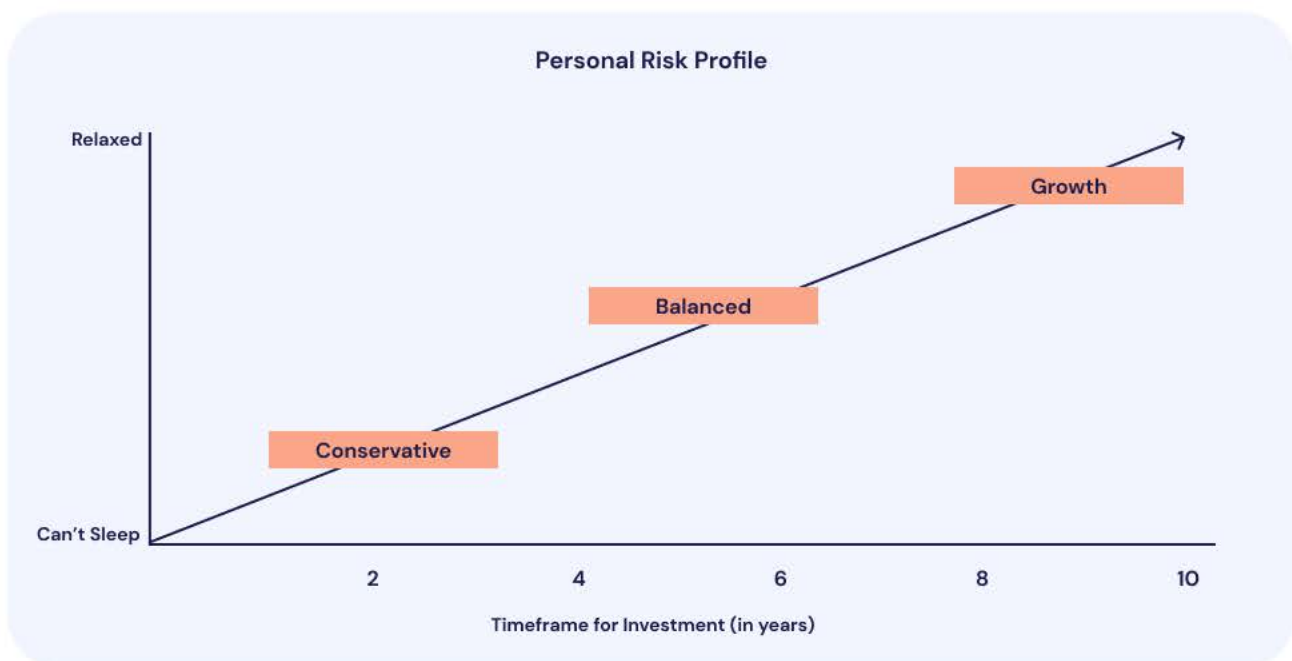
2. Understand your personal risk profile

Reflect on your #1 goal and timeframe and how it relates to your appetite for risk.

Risk tolerance is personal. When it comes to investing, your personality, age, goals, timeframe and level of knowledge and understanding can influence how you feel about risk. You'll also likely have a different tolerance for risk at different stages of life.

For example, retirees may be more conservative investors as they will likely need to access cash to support their life during retirement and will also have less time to ride out a period of volatility.

On the other hand, a younger person who has their whole working life ahead of them may be more likely to be comfortable with taking a higher level of risk with some of their investments as they have time to grow their wealth, and to pass through a period of volatility. However, it's important to reflect on your personal tolerance for risk. You may have different levels of risk for different types of investments, depending on when you may need to access your money.



Investor Profile	Asset Allocation Strategy
<p>Growth Prepared to accept a higher volatility and a higher level of risk. Investment time horizon is likely to be 7+ years.</p>	<p>Growth: 75-90% Defensive: 10-25%</p>
<p>Balanced Prepared to accept moderate levels of volatility and risk. Investment time horizon is a minimum of 5 years.</p>	<p>Growth: 60-70% Defensive: 30-40%</p>
<p>Conservative Prefers low risk investments and is prepared to accept lower returns to protect capital. May need to access cash in short term. Investment time is generally less than 3 years.</p>	<p>Growth: 0-30% Defensive: 70-100%</p>

Mark on the graph or reflect on what your risk profile might be for your #1 investing goal

3. Apply diversification

Sometimes it can be easy to think that if shares have an average return of say 9%, why not go all in? One of the golden rules when it comes to investing is to apply the concept of diversification – which essentially means ‘not keeping all your eggs in one basket’. This is important because some investments make gains and some investments make losses through certain periods, events or trends. Having a diverse mix means you may be able to avoid extreme highs and lows aka high volatility.

Consider how you plan to apply diversification in your investing strategy into the future?

Some ideas include:

- Investing in different asset classes – for example, in a high-interest savings account, some in shares, some in property, investing back into your own business, and so on.
- Invest in different industries – for example, you may choose to have some shares in health, retail and energy.
- You could also choose to invest across property and company locations.

Are you currently exposed to diversification risk? If yes, how and what could you do to ‘spread your eggs’?

4. Manage Environmental, Social and Governance (ESG) Risk

More and more, investors are integrating ESG Risk into their risk management when investing.

Smart investors have long known that there is more that drives investment returns than just what is reported in financial reports. They understand that companies or assets won't thrive if they ignore environmental risks (i.e. pollution, climate change, water and other resources scarcity), social issues (i.e. local communities, employees, health and safety) or corporate governance issues (i.e. prudent management, gender diversity and inclusion, business ethics, appropriate executive pay). Responsible investment, also known as sustainable or ethical investment, is a broad-based approach to investing which factors in risks associated with people, society and the environment, along with financial performance.

When we invest in shares, we have the opportunity to 'vote' with our money. What companies or industries do you want to see grow into the future, and what companies would you prefer not to invest in?

We've assumed because you've found your way to Verve that you're interested in investing sustainably to support women, our communities and our planet. However feel free to make your own notes if there are areas that you would or wouldn't invest in that aren't listed here.

Tick the three areas you care most about or are interested in

- Gender diversity & inclusion
- Social wellbeing
- Technology
- Renewable energy
- Healthcare
- Healthy food production
- Education
- Recycling
- Efficient transport

What would you never want to see your money invested in?

- Exclusion of women from leadership
- Fossil fuels - including coal, gas & oil
- Human and labour rights abuses
- Environmental destruction
- Offshore detention
- Gambling
- Tobacco
- Live animal export
- Weapons, armaments, nuclear & uranium

5. Do your research

While this is number 5 on your list, ‘Doing your research’ is by no means the least important! There are lots of ways to do your research before you get started, so that you feel confident in your investment strategy. Spend as long as you need researching and seeking independent advice from a trusted advisor(s) as necessary.

Here are some additional resources to get you started:

Areas to explore	Useful links and resources
Glossary of Investing Terms	Glossary - Moneysmart.gov.au
Develop an investing plan	Develop an investing plan - Moneysmart.gov.au
Consider your goals and risks	Investment goals and risks
Explore values based investing	https://responsibleinvestment.org/ Responsible Returns Investment Tool - Responsible Returns What does ESG stand for? The starter's ESG glossary
Explore key concepts: Diversification	Investing The Importance of Diversification
Explore key concepts: Time	Are you investing or gambling? The important difference between the two Time in versus timing - build your wealth by investing now
Explore key concepts: Dollar Cost Averaging	Dollar coast averaging - taking time out of the investment equation
Free online courses, tools, videos and games to learn about investing in shares	Investment tools and resources - ASX
Index chart we shared in the presentation	Stay the course - a timeley reminder
Range of independent calculators	Home - Moneysmart.gov.au
Other resources you'd like to have handy:	

If you're interested in learning more about shares as an investment vehicle, head to [Topic 6 of Verve's Money & Mindset Course](#).