

## PODCAST – Investment risk

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Hello, and welcome to the **MLC Super Podcast Series**

My name is **Chris Odgers** and I'm here today with my colleague, **Marcus Thompson**, two of your Superannuation Consultants at MLC Wealth. Our role is to provide information, guidance and advice to our super members throughout their working life and into retirement.

**Chris:** Hi Marcus

**Marcus:** Hi Chris, great to be here.

**Chris:** Marcus, we're here today to talk about investments and investment risk. Can you please tell us a bit more. . .? Where would you like to start us on this topic?

**Marcus:** When we talk about investment risk, we talk about the probability that an actual return on an investment will be lower than your expectations. All investments have some level of risk due to the unpredictability of investment markets. There are many factors affecting investment markets every day which causes them to fluctuate up and down, particularly over short periods of time.

When it comes to investing, you'll often hear people talk about asset classes. Generally speaking, the asset classes that have the highest return potential, usually have the highest risk.

**Chris:** You mentioned "asset classes". What exactly are asset classes, and when it comes to super what are the main ones?

**Marcus:** An asset class is a specific category of assets or investments, we usually break them down into four main asset classes - Shares, Property, Cash and Fixed Income. More broadly we often use the terms Growth assets to define Shares & Property, and Defensive assets for Cash & Fixed Income. Cash, as you know, is pretty low risk as most cash investments don't usually change much in value, but the returns are also quite low. We hear in the news about share markets rising and falling in value from day to day, but over very long periods of time they are usually the higher performer of the asset classes.

**Chris:** It seems to me there's a balance between the nature of the assets we choose to invest in. Can you tell me more about the risk versus return trade-off?

**Marcus:** Return and risk are never perfectly aligned. But over very long periods of time, we tend to see shares outperform other asset classes, with cash being the lowest performer. It's important to get the mix of investments in your portfolio right to reflect your age or stage of life and importantly your feelings towards risk and the returns you need from your investments.

**Chris:** You mentioned getting your mix of investments right. How do we do that?

**Marcus:** Chris, the first step is understanding your own individual risk appetite.

**Chris:** “Risk appetite”. Can you explain that a bit further?

**Marcus:** Risk appetite: Really, it’s about how comfortable you are with fluctuations in investment markets, your investment preferences and your investment experience. Given the choice, everyone would love investments that deliver high returns with very little risk. But disappointingly they don’t exist. Achieving a higher return is the reward for accepting risk in your portfolio. Risk isn’t a bad thing, it’s necessary to get you the higher returns.

It’s important to therefore understand how much risk you can bear. This is known as your risk profile and there are many factors that form part of this.

**Chris:** OK, I’m a bit clearer now . . . So how do I know what my risk profile is, and how can I find out?

**Marcus:** For those that have met with a financial planner in the past, the planner has likely gathered information relating to your risk profile, usually through a detailed questioning process to understand how you may react to certain market conditions and outcomes.

For those that haven’t had this experience, there are many online tools available to help you to determine your own risk profile. A good one to start with may be found on the government’s ASIC Money Smart website.

We sometimes call risk profile the ‘sleep test’. Can you sleep at night if you know the investment markets aren’t doing very well?

**Chris:** So, when we’re trying to work out what is the best investment type for our own situation, what should we look for?

**Marcus:** Chris, you need to consider three key factors:

1. Your time horizon – Will your money be invested for a long a short time?
2. Your return objective – What type of return are you seeking?  
Conservative, cash/interest style returns or higher returns which generally involve higher risk investments? Or, do you sit somewhere in between?

**Chris:** And let me guess Marcus, the third one is risk appetite that you’ve just been talking about?

**Marcus:** Yes, that right Chris. Your risk appetite. In other words, how much risk are you prepared to take? Essentially, what level of risk won’t keep you awake at night.

**Chris:** Marcus, your first point there about time horizon, can you explain that a bit further?

**Marcus:** Firstly, when making an investment choice you may need to think about your investment time frame. That is, how long you’re investing for. Keep in mind that your investment horizon includes not only the period until you retire but also the years, or even decades that you could spend in retirement.

The period you’re investing for is an important factor to consider when deciding where to invest your super.

For example, if you know you are investing for more than 10 or 20 years, then maybe you can handle investing a large portion of your portfolio in shares because over very long periods of time they tend to give higher returns than other asset classes.

**Chris:** We sometimes hear about diversification being important when it comes to investing. Can you explain that in more detail?

**Marcus:** Asset classes all produce different returns at any point in time as different factors affect their returns. When one asset class is weak, another may be performing well. So, the good returns can offset the weak ones. That's why a portfolio with some exposure to each asset class can be expected to deliver less fluctuations in returns than say just investing in shares.

So, diversification can help provide more consistent investment returns which can mitigate some of the apprehension of investing in higher risk asset classes.

**Chris:** We often hear about the risks of investing in some of the higher risk investment options. Conversely, are there risks in choosing a low risk investment option?

**Marcus:** In financial terms, there's also a risk of not having enough assets or money to provide you with the lifestyle you desire in retirement. Therefore, if you choose an investment portfolio that's too conservative, with a low weighting to growth assets, you may have to save more for your retirement, or delay your retirement. That's because growth assets can help provide higher returns in the long run. If you invest in cash, which has low return potential, your investment may not fluctuate but it also may not deliver the returns and growth you need from your superannuation.

**Chris:** Thanks Marcus, that's useful to know. We have covered a lot of information today—can you please summarise the key points.

**Marcus:** Chris, no problem. The key points we'd like everyone to take away are:

- There's risk involved in all investments due to the unpredictability of investment markets, but you need to accept some risk in your investments if you want the higher long-term return potential, and
- To consider your own time horizon, returns your need and risk appetite when figuring out what is the best mix of investments for you.

Most importantly, we hope people are better positioned to understand their own risk profile for future investment decisions.

**Chris:** So, Marcus where can people go for further information about their MLC superannuation account?

**Marcus:**

1. The MLC website at [www.mlc.com.au](http://www.mlc.com.au)

Lots of useful information here. We remind people it's a great idea to set themselves up with online access to their account if they haven't already done so.

You can also check out our range of podcast topics here, via our **Financial Wellness Hub**, which can be accessed from the 'News & views' tab on the website.

On the **Financial Wellness Hub**, you will also find educational and interactive content that goes beyond superannuation, addressing your holistic needs, by providing access to industry experts and thought leaders.

2. MLC contact centre on **132 652** between 8.00am and 7.00pm AEST, Monday to Friday
3. Conversation/personal financial advice. If you would like additional information on a more personal basis, a couple of options:
  - 1:1 conversation with one of our MLC reps (such as Chris or myself) – General Advice basis. This can be booked for a convenient time, also via the **Financial Wellness Hub**.
  - Financial advice. Set up an initial meeting with one of our licensed financial planners. This can be initiated through the MLC contact centre on **132 652**

**Chris:** Marcus, thanks for assisting us with this podcast. We hope this information has been helpful.

A reminder that the content today is general information.

Thanks, and bye for now.

**Marcus:** Thanks everyone, and bye from me too.

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