

# risk tolerance

## Establishing your Risk Tolerance

All investment decisions involve both the possibility of making money and the chance of losing it.

At Carbon, we believe that the simplest and most effective way of determining the level of risk that is appropriate for you is to first establish what level of investment return is required to achieve your objectives. Once this figure is known, we can discuss how much risk you need to take and your capacity to tolerate the level of risk required to deliver your target return.

One of our guiding principles is that you should only take the minimum amount of risk necessary to achieve your objectives, so if you only need your capital to keep pace with inflation, then index-linked investments are all you need. If, on the other hand, you need to produce a real return of 3% per annum (i.e. 3% after the effects of inflation), a more sophisticated strategy will be required.

The illustration overleaf is intended to show you how fixed interest securities, global property securities and equities have performed in the past and what happens to the relationship between risk and return when these asset classes are blended.

The figures used in the table are designed to help you understand the level of risk you may need to take to achieve your financial objectives.

Please remember that the returns shown are based on the actual returns from the underlying asset classes between 1/1/1990 and 31/12/2017, and not for the specific funds that may be used to try and achieve your objectives. The figures exclude costs.

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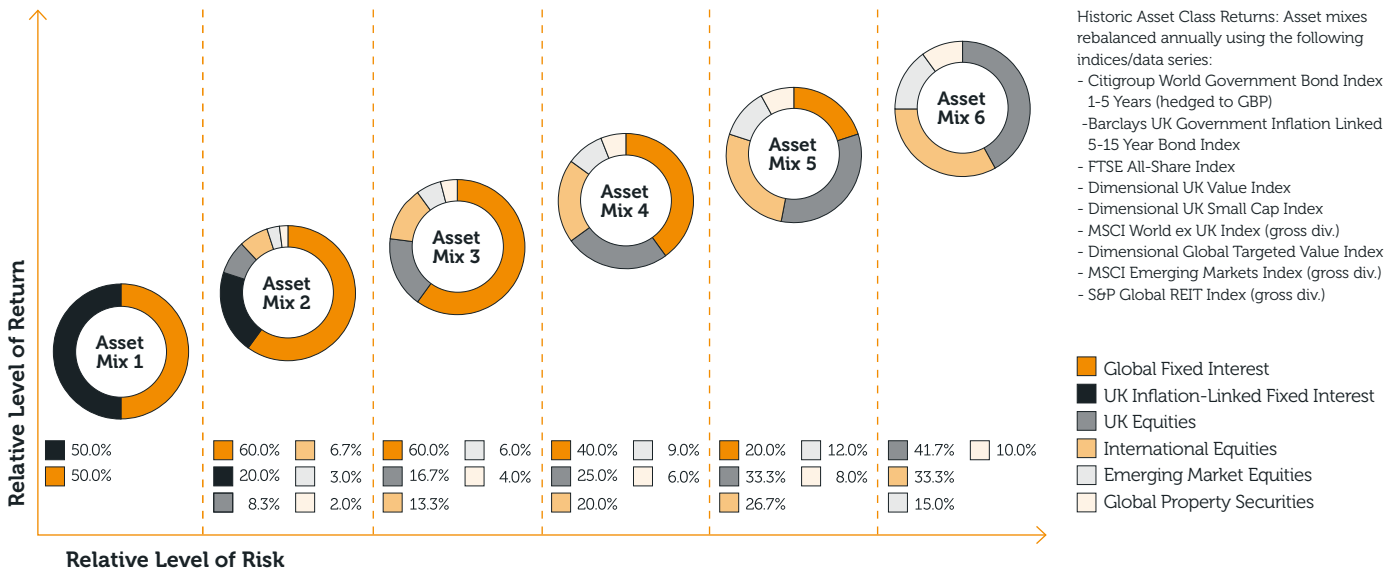
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## Historic Asset Class Returns



	Asset Mix 1	Asset Mix 2	Asset Mix 3	Asset Mix 4	Asset Mix 5	Asset Mix 6	
A							A Discrete performance over the 12 months to 31st December 2017.
2013	-1.0%	3.8%	8.3%	12.1%	15.8%	19.5%	
2014	6.2%	4.6%	3.7%	4.5%	5.3%	6.1%	
2015	-0.8%	0.2%	0.8%	0.6%	0.3%	0.1%	
2016	7.8%	9.4%	12.4%	18.0%	23.6%	29.3%	
2017	0.8%	3.2%	5.7%	8.5%	11.3%	14.1%	
							All figures sourced from Dimensional (January 2018) and rounded to nearest one decimal place
B	6.6%	7.4%	8.1%	8.8%	9.4%	9.9%	B Annualised Return
C	15.0%	17.9%	22.8%	28.4%	34.0%	39.6%	C Best Calendar Year Return
D	-2.0%	-1.2%	-6.6%	-14.3%	-21.9%	-29.6%	D Worst Calendar Year Return
E	4.5%	4.9%	7.3%	10.5%	14.1%	17.7%	E Volatility

These figures are based on past performance and exclude costs which would reduce returns. Past performance is not a reliable indicator of future results.

## Volatility

One simple measure of risk for investors is the likelihood that the actual outcome differs from the expected outcome. Using volatility as a measure of risk tells us the extent to which past returns have varied from the expected, or average return. The higher the volatility number of an investment, the more widely its returns have varied from the average, leading it to be regarded as more 'risky'.

A bell curve is a useful model for understanding the potential spread of returns from an investment. In this example, we would expect returns, in 95% of cases, to be between -11.7% and 30.3%.

Although this information is useful, it is important to remember that there is no guarantee that future investment returns will continue to be as they have been in the past.

