

Balancing investment risk and potential reward



IFEA

Investor Education Simplified

Investors Financial Education Academy

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When constructing your investment portfolio, you need to consider the risks as well as the potential rewards.

This guide helps you to understand investment risk and how it can potentially affect your investments.

The key areas it covers include:

- Understanding risk.
- Your risk-return profile.
- Managing risk in your portfolio.
- Different kinds of risk and how they are measured.

From reading this guide you will have a greater understanding of the risks associated with different types of investments and be able to discuss them with your financial advisor.

Get a regular cash benefit to meet everyday needs
+
Get a lump sum to achieve your goals



Also, get a life cover to protect your family's future.

ICICI Pru
Cash Advantage

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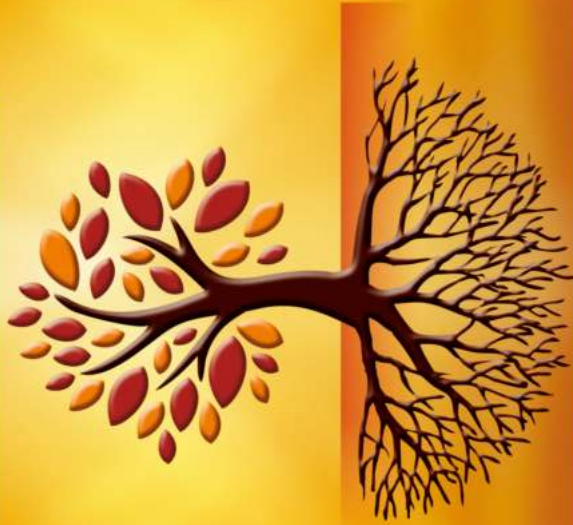
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**MONEY
 GROWTH**
 Company adds benefits like GMB ^ and GA# to grow your savings



**CAPITAL
 PROTECTION***
 Keep your investment stable and secure



**So start your safe journey towards a rising future today!
 Along with life cover**

-  **Guaranteed Maturity Benefit (GMB) ^**
-  **Increasing Guaranteed Additions throughout the policy term**
-  **Accumulated Guaranteed Additions (GA)^* as % of annualised premium**
-  **Life cover for entire policy term**
-  **Capital guarantee***
-  **Tax benefit¹**

The actual asset allocation of ICICI Pru Future Perfect product in Equity is 38.78% as on September 30, 2017.

¹Capital protection and Capital Guarantee are in the form of guaranteed benefits at time of Maturity. ^ GMB will be set at policy inception and will depend on age, policy term, premium, premium payment term and gender. The GMB may be lower than your Sum Assured on death. #For monthly premium frequency, 1/12th times GA will be accrued every month on premium payment. For half yearly premium frequency, 0.5 times GA will be accrued on premium payment. Guaranteed benefits are payable subject to all due premiums being paid and the policy being in force. *Tax benefits under the policy are subject to conditions under Sec. 80C, 80D and Sec. 10(10D) of the Income Tax Act, 1961. Goods and Services Tax and Cesses, if any, will be charged extra as per prevailing rates. Tax laws are subject to amendments from time to time.



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Understanding Investment Risk



All investments carry some risk, but the level of risk varies depending on which investments you choose. In general terms, the higher the risk, the higher the potential return – and the higher the potential loss. You simply can't build an investment portfolio without considering a number of aspects of investment risk.

More risk for potentially greater reward

You may need to consider accepting more risk if you want to pursue higher returns. If you decide to seek those potentially higher returns, you face the possibility of greater losses, including some or even all of your investment.

The effect of time on risk

In case of riskier investment such as equities, it is better to wait for longer tenure to reap better returns. Bear in mind, that long term investing does not guarantee that you will meet your investment objectives.

Understanding Your Risk Profile

Your personal risk profile shows how ready you are to potentially lose money in return for the prospect of rewards. Your profile depends on your attitude to risk and your reason for investing. It also depends on your financial situation and how long you have to invest.

Your attitude to risk

If you have a high risk tolerance you may be more willing to have riskier and more aggressive investments in your portfolio, such as equities or property, in the hope of making potentially higher investment returns.

If you are more cautious, you may want to focus on preserving your original capital as much as possible and prefer more stable, low-risk investments, such as bonds or bank FD, even though these are likely to offer more modest investment returns.

Your risk profile over time

Your risk tolerance will change over time. At the most basic level, there may be a time to take risks to grow your money; a time to preserve wealth and a time to live off that wealth.

Investors in their 20s may not be too worried about a big drop in markets, reasoning they have time to ride it out and profit in a later recovery. Investors in their 50s on the other hand, may focus more on protecting against loss of wealth.



Risk Required

The level of risk you need to take to achieve your goals



Risk Capacity

The level of risk you are able to take



Risk Tolerance

The level of risk you are willing to take

Your advisor can help

Each investor will have a unique risk profile, which is why you might wish to speak to a financial advisor. They can help you determine your risk profile and work with you to develop an investment plan that's right for you.



Equities

Equities, sometimes called stocks or shares, represent ownership in a company. These offer the potential for higher returns, although with higher risk.

Property

This can include your own house, as well as land/house bought as investment.

Bank Deposit

Usually includes cash held in bank as fixed deposits.

Bonds (fixed interest)

A bond is a loan made to the bond's issuer. This could be a company (known as corporate bonds), a government or some other institution. Different types of bonds vary greatly in their risk profile, although government bonds are considered one of the least risky investments.

Mutual funds

Mutual funds are professionally managed investment funds which invest in a range of assets.

Gold

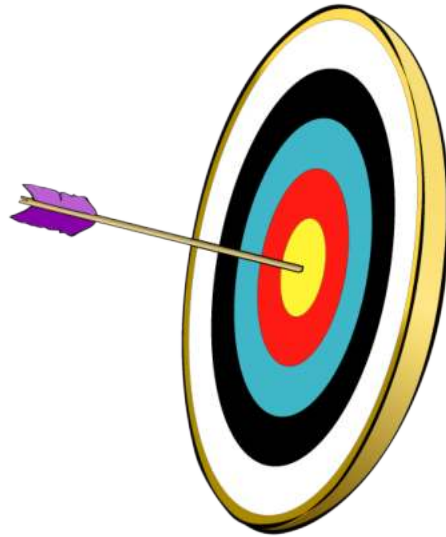
Investment in physical gold or gold bonds issued by government or gold ETFs.

The Importance of Setting Objectives

Before deciding on which assets to choose, you need to decide why you are investing and how long you have to invest. While choosing an investment you need to consider (i) your investment objective (ii) the risk you are willing to take and (iii) the return you expect.

Different time frame, different approach

If you are investing for the long term, say for retirement for example, you might choose to hold some equity based assets. On the other hand, if you have to pay for a short term goal such as a wedding, you may decide to hold more cash. Deciding on the basic structure of your investment portfolio is called asset allocation.

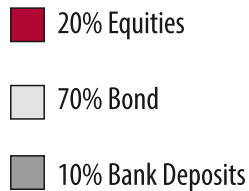


Different objectives, different portfolios

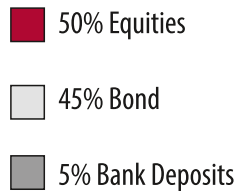
Younger investors or those with a higher tolerance for risk might seek a more aggressive investment strategy that holds a higher proportion of equities since they may deliver greater returns over the long term, but at a higher level of risk. Older investors or those with a lower risk tolerance, who are seeking to preserve capital might want to hold a greater proportion of cash and bonds, which also have the advantage of paying a certain level of income. Whatever your risk profile, time frame and investment objective your financial adviser can work with you to determine the appropriate types of investments with the right level of risk and potential reward.

Hypothetical model portfolios

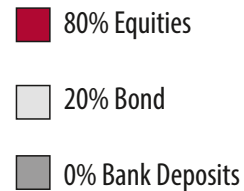
Conservative Portfolio



Moderate Portfolio



Adventurous Portfolio



The **conservative** portfolio has a low proportion of equities, and may suit those with low risk tolerance and/or a short time to invest.

The **moderate** portfolio has a lower percentage of equities compared to bonds, and may suit investors with medium risk tolerance and/or a medium investment time frame.

The **adventurous** portfolio, with a high proportion of equity-based investments, may suit investors with high risk tolerance, and/or those with a long investment time frame.

How Professionals manage risk

You can learn a lot by studying some of the risk management strategies used by professional investors. Four of the most prominent include diversifying across asset classes, using mutual funds, rupee cost averaging and adjusting portfolios (sometimes called 'rebalancing').

Diversification

Diversification means spreading your investments across different asset classes and sectors. By not having all your eggs in one basket and by holding investments that tend not to rise and fall together, you can manage the overall risk of your portfolio.

Mutual funds

Professionally managed investment funds invest in a range of assets, giving you automatic diversification within a single fund.

These funds come in a multitude of types from many different investment management companies. Your financial adviser can help you decide which ones may be appropriate for you.



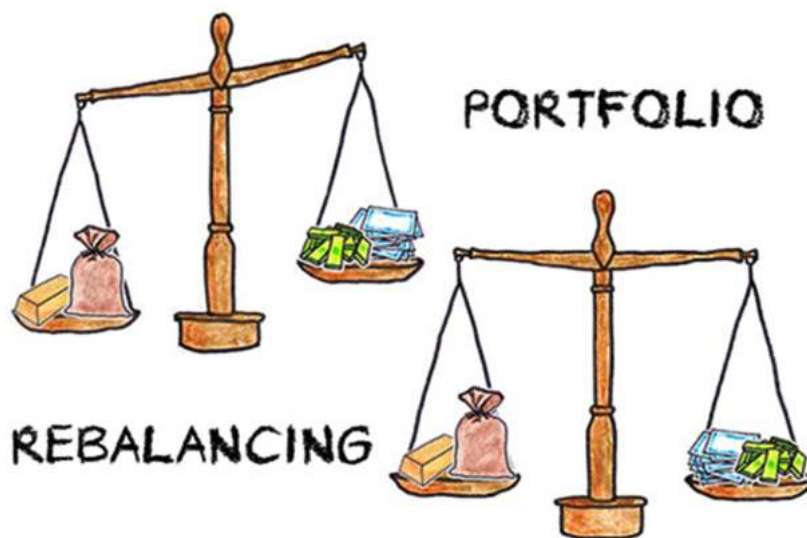
Rupee cost averaging

This refers to building up an investment through regular contributions, rather than investing one lump sum. So, when prices are high, your contribution will buy fewer shares or units – but when prices are low it will buy more. This way, you reduce the risk that you pay too much when the price is unusually high and benefit from buying more shares when the price has fallen.

Adjusting your portfolio

Market fluctuations can affect your mix of assets and change the risk/return profile of your portfolio. Sometimes referred to as 'rebalancing', adjusting your portfolio back in line with your investment objective helps to ensure that your portfolio does not become overly invested in a particular type of investment, and thus change its risk profile so that it's out of line with yours.

These techniques are provided for educational purposes only. Your financial adviser can give you more information about these concepts and how to use them in practice.



Investors face many risks. Some are general and some are related to particular kinds of investments.

Inflation risk

Inflation is like a stealth tax eating away at the value of money. You won't see a smaller cash balance in your account, but you will definitely lose buying power. In other words, the amount that you can purchase with each rupee in your pocket slowly erodes over time.

Many savings accounts fail to pay a return that beats inflation, especially after tax is deducted. So even if you reinvest every rupee of your interest, the real value of your savings could fall.



Protect your capital
and watch it grow



Get Guaranteed Maturity Benefit (GMB) ^(Conditions Apply#)

+

Accrued Guaranteed Additions (GAs) ^(Conditions Apply#) equal to 5% of
GMB will accrue to the policy in each of the 5 years

Non guaranteed reversionary bonuses and terminal bonus
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Also, get a life cover to secure your family's future

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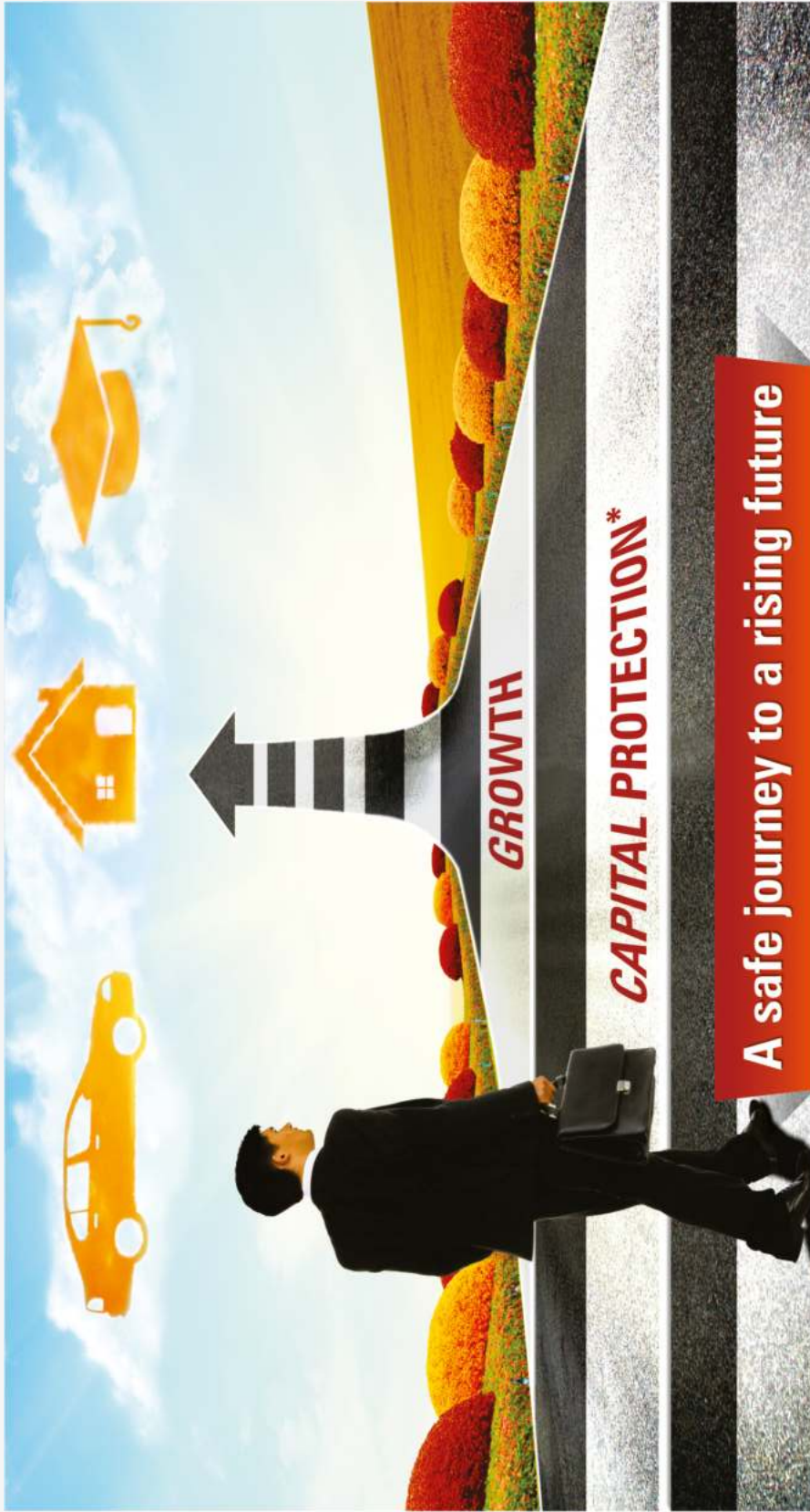
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ICICI Pru Savings Suraksha is a savings and protection oriented participating life insurance plan.



*Capital protection is in the form of guaranteed benefits subject to payment of all due premiums.

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Economic and political risk

Economic and political factors play an important role in the performance of investment markets. Economic factors include economic growth, inflation, employment, interest rates and business sentiment. While political risk includes changes in government, political uncertainty and international conflicts.



Shortfall risk

This means the risk of failing to meet your long-term investment target. This could mean that you didn't take on enough risk to get the potentially higher rewards, or that you took on too much risk and your portfolio fell in value.

For example, if you are saving for your retirement, putting all your money into a savings account may not build enough capital to produce the income you will need in retirement. On the other hand, you could also be exposed to shortfall risk if you invest in too many high risk assets causing your portfolio to lose value at the wrong time. So investing too aggressively or too conservatively can each lead to shortfall risk.



Understanding Asset-Related Risk

Country risk

The risk that domestic events – such as political upheaval, financial troubles, or natural disasters – will weaken a country's financial markets.

Credit (or default) risk

The possibility that a bond issuer will fail to repay interest and capital on time. Funds that invest in bonds are exposed to credit risk.

Interest rate risk

The possibility that the prices of bonds will fall if interest rates rise.

Liquidity risk

The chance that an investment will be difficult to buy or sell.

Manager risk

The chance that a Mutual fund will underperform due to poor investment decisions.

Market risk

The risk that any market such as equities, bonds, property, may decline.



Sector risk

The risk that a particular sector within a market, such as the oil and gas sector, or the travel sector, may decline in value. For example, if oil prices surge, the oil and gas sector might rise, but the travel sector might fall due to rising fuel costs.

Specific risk

The risk that a specific share, bond or fund you've invested in performs badly.

Volatility risk

As we saw earlier, different types of investments fluctuate in value over time. This is referred to as volatility and is often used to assess the potential risk associated with an investment.