

## Risk Can Be Managed

Danger is real, but fear is a psychological phenomenon. Although we should distant ourselves from danger, however, we cannot totally avoid it. As such, we should learn how to protect ourselves from danger or get a trusted person to protect us. In investment, risk is associated with investing in risky assets. Nevertheless, risk can be managed and we should learn how to manage risk if we intent to achieve better return or get an entrusted yet experienced professional to manage the risk for us.

In the movie "After Earth" shown recently where injured Cypher (played by Will Smith) told his son Kitai Raige (played by Jaden Smith), who was entrusted to retrieve a signal device to save themselves in a stranded planet, that "Danger is very real, but fear is a choice".

In investment, the existence of risk is real and in layman's term, risk can be defined as the probability of losing money. The quantum of risk depends on the type of investments and some risks could be higher than others.

To get out of the comfort zone of placing our savings in banks, there is a need to step out of the low-yielding bank deposits. In order to maximize the return from the current low interest rates environment (which will probability stay low for years to come), there is a need to face the risk.

Although risk cannot be avoided when you are out of the comfort zone, risk can be managed.

The best way to manage risk is to understand the risks associated with a particular investment. The questions to be asked would be what are the risks, where are the possible risk areas, what can go wrong, how to avoid them, what are the contingent plans, etc. The list of queries appears to be similar to that in any businesses. Yes, we are treating share investment as a form of business where we must manage the risk while seeking reasonable return. We always look for good risk-reward investment stocks.

Another way to manage risk is through diversification into different asset classes which are not highly correlated and by spreading the investment over time instead of a single lump sum investment.

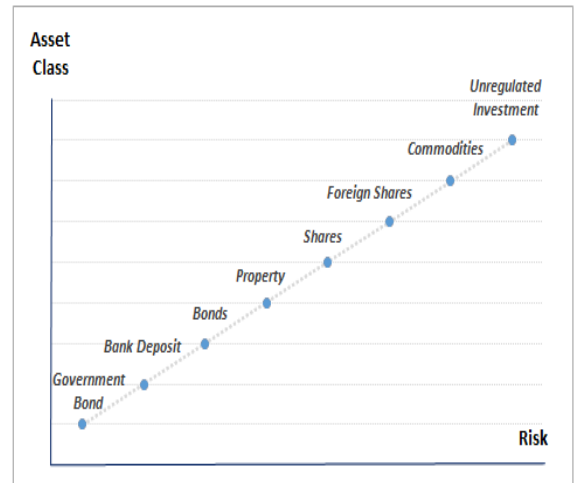
**"Fear is not real. It is a product of thoughts you create. Do not misunderstand me. Danger is very real. But Fear is a choice."** Will Smith

Table 1: Common Investment Blunders

1. Only look at return without understanding the risk
2. Only interested in gain and don't care how the profit was derived
3. Greedy and always ask for the sky
4. Expect unreasonable return
5. Always chase after winners showing strong recent performance
6. Put all the eggs in one basket to maximize return

Source: PCM

Figure 1: Asset Class & Risk



Source: PCM, Need to scale

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