

Agree on your family goals, risk appetite and choose a suitable investment



Mr. Ofori is determined to give his family the best life possible. He wants to open a provision shop for his wife in 3 years, send his 4-year old daughter to an international university and go on a family vacation to Dubai next year. Mr. Mensah is concerned about selecting an investment that can help him achieve these family goals.

Choosing the right investment for your family is critical to ensuring the financial security of the family. Unlike a personal investment, a mistake goes beyond one person to affect all the members of the family. To help you make better investment decisions as a family, you need to consider your family goals, time horizon, and risk appetite.

Family Goals

Every investment must have a goal. We can get some cues about family goals from Mr. Ofori. Thankfully, he already knows that he needs the investment for a business for his wife, education for his daughter, and a family trip. But beyond that, he also needs to determine whether he is investing for **capital growth, income, or capital preservation**. An investment could help your money grow in the short to long term (capital growth) or provide regular income in the form of dividends (income) or help you keep your money from loss (capital preservation). Clearly define what you plan to use your investment for and this will guide you to make an appropriate choice.

Time horizon

An investment time horizon is how long you expect to hold an investment for a specific goal. You could have an investment for the **short** (less than 3 years), **medium** (3-5 years) or **long term** (more than 5 years). Mr. Mensah's Dubai trip would be classified as a short-term goal while the provision shop is a medium-term goal and the University dream in the long term. The longer the time horizon, the more risk you can take. For shorter-term investments, you are expected to keep investment portfolios that are more conservative or less risky. The right investment fit for you will match your time horizon.

Risk appetite

Risk appetite refers to the maximum amount of risk that you are ready to take to achieve your investment objectives. An investor could have a **low, medium or high risk appetite** and should choose an investment that corresponds to this risk appetite. Assume that there's an investment that offers you returns at 30% but with a risk of 40%. If you still choose this investment despite this 40% risk, your risk appetite is said to be high. Another investor may not even be willing to see a 1% drop in his investment and would prefer something safer with a more predictable or guaranteed return. Individual risk appetites differ and so for you to settle on one that works for your family, you could use other investment factors or diversify your portfolio with investments with different risk profiles.

How to determine your family goals, time horizon and risk appetite

Family Goals

Ask: Why are we investing?

Is it for

- a. Education/ House/ Wedding/ Car/ Emergencies/ Retirement, etc?
 - b. Income / Capital Growth/ Capital Preservation
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Time horizon

Ask: How soon would we need to withdraw a huge part of the investment?

- a. Less than 3 years (Short term)
 - b. 3-5 years (Medium term)
 - c. More than 5 years (Long term)
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Risk appetite

Ask: How would we feel if our 5-year investment lost 10% of its value in the first year?

- a. Concerned enough to withdraw everything (Low risk appetite)
- b. Concerned but not enough to withdraw my investment (Medium risk appetite)
- c. Not concerned and willing to wait out all the 5 years (High risk appetite)

Teamwork makes the dream work

Just as for major family decisions, you may need to come together and agree on the type of investment to go for as a family. Although members of the family may have individual preferences, your investment decisions should be made based on information, not emotion.

We understand that there is no one-size-fits-all investment that works for every family. That is why we have a range of investment products to suit different goals, time horizons, and risk appetites.

Speak to us at Databank today. Call us on **0302 610610** or WhatsApp us on **0577 289133** or visit www.databankgroup.com.

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