

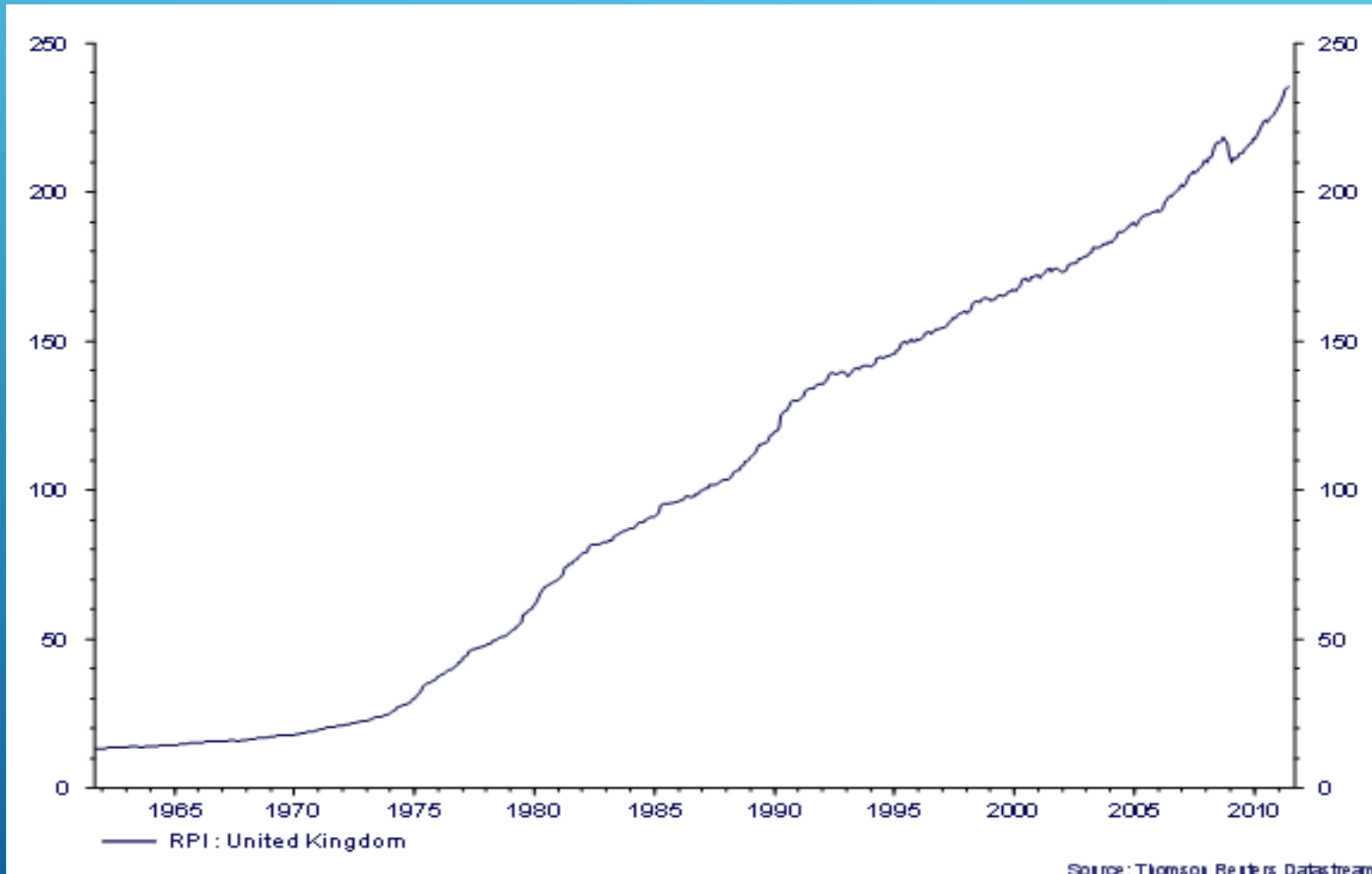
# Investment Risk management

Risk

**INFLATION RISK**

# Inflation Risk

## Inflation (RPI) over last 50 years



# Risk

## **INFLATION IS A REAL RISK FOR EVERY COMPANY. WHY?**

- Difficulty controlling costs
- Budgeting
- Goods/services can become uncompetitive
- Wage demands escalate as rise in cost of living is highlighted

# RISK

**When was UK inflation (RPI) last in double figures?**

10.9% in 1990

# RISK

**What have the highest rates of inflation been in the last 100 years?**

27% in 1975

35% after the first World War

Changes in supply & demand can cause sudden rises or falls in prices – Middle East conflict in 1970s precipitated a sharp rise in the oil price and thus inflation.



# RISK

## What businesses are particularly vulnerable in times of high inflation?

- Those with high transport costs
- Those with high staff costs (schools, nursing homes)
- Others?

# RISK

## **Inflation back in the headlines following quantitative easing (more on this later!)**

What investors are most vulnerable in times of high inflation?

- Cash depositors
- Holders of fixed interest investments

# RISK

## **Historically, which investments have benefited most from inflation?**

- Shares
- Property
- Index-linked investments (government stock)

However, liquidity requirements may knock the 'real' assets theory off course as there needs to be a buyer for a seller to realise his/her profit.

**Income & Capital Growth – Risk of Shortfall**  
Capital Growth – Risk of shortfall

RISK

## Capital

There is always a risk that an investor's capital falls in value rather than grows, thus creating a shortfall – in real terms or in investor's expectations – Know Your Client especially important in these circumstances.

INCOME & CAPITAL GROWTH – RISK  
OF SHORTFALL

# Income & Capital Growth – Risk of shortfall

## Income

Income may be cut through a company defaulting on its fixed interest payments or cutting its dividend through a drop in profitability. It may also not raise its dividend by sufficient each year to combat inflation.

The more certainty of income is required, the lower the level of income likely to be available or the more in-depth research will be required.