



Don't risk a lot for a little

If you are going to take a risk make sure the odds are in your favour. In poker, if you have a 1 in 2 chance of winning a hand, you better make sure that for every dollar you risk you get back more than \$2 if you win.

The corollary to this is if you have two opportunities of equal risk, choose the one with the greater payout.

Insurance is a way you can pay someone else to take some risk for you

People seem to be very confused by the idea of insurance. In its simplest form, insurance is simply a transaction where you pay someone to assume some risk for you.

Insure first that which you can least afford to lose

This one is simple — if you can't afford to lose something, pay someone to take some of the risk for you. I don't know how many clients I see who don't realise that their primary and biggest financial asset is their ability to earn an income. Rational, responsible people will purchase stocks, bonds, RSP's, TFSA's, RESP's, and all sorts of other acronyms, but will not have enough income insurance

protection to maintain their lifestyles. **Always ensure what you can't afford to lose.** Usually, the 3 things on top of the list are:

- Your Income
- Your Health
- Your Life

Determine your own level of risk tolerance

You may have the most effective, efficient, well researched, balanced, Monte-Carlo simulated, jet propulsion tested plan in the world, but if you can't sleep at night it isn't working. Review it and change it. Pronto. (Also read about Harry Markowitz over here).

Remember Opportunity Cost

This is another factor that people commonly overlook when making decisions. Essentially opportunity cost tells us that the cost of using a resource is equal to the value of what you can do with that resource (or what that resource will do for you) in the future.

Check That Your Insurance Does What You Expect It To

Make sure that the coverage you have does *what* you think it does, *when* you think it does. Most of my clients have been surprised by some of the exclusions, dissimulations and misconceptions that we've uncovered.

As a life insurance advisor and consultant, I love talking about risks. Primarily there are three risks categories that I help my clients, individual or corporate, deal with:

1. The financial risks associated with premature death, getting sick or being injured
2. The financial risk of living too long, not being able to maintain your standard of living, markets tumbling & losing most or all of your money
3. The financial risks of paying too much in taxes & the lost opportunity costs associated with this scenario

CATEGORY

1. Estate Planning
2. Financial Planning
3. Wealth Creation & Economic Confidence

POST TAG

1. financial philosophy
2. financial planning
3. needs based planning
4. risk
5. risk management

6. risk of ruin
7. wealth creation

Category

1. Estate Planning
2. Financial Planning
3. Wealth Creation & Economic Confidence

Tags

1. financial philosophy
2. financial planning
3. needs based planning
4. risk
5. risk management
6. risk of ruin
7. wealth creation

Date Created

June 2022

Author

naoshad