Seven Simple, Useful, Risk Management Guidelines

Description

Life is fraught with risk â?? being hit by a bus, losing oneâ??s job or spilling coffee on yourself right before that crucial once in a lifetime meeting. This article provides some basic guidelines or principles that are universally applicable to managing the risk in your life, work, finances, and poker budget.

Donâ??t risk more than you can afford to lose

You would think this would be self-evident but I see it all the time. Peopleâ??s retirement money is all in mutual funds (because the markets always go up), or they own a building that will comfortably support them (unless something untoward happens). Frequently we see people â??bet on the come,â?• and our society venerates risk-takers and daredevils. Ironically, if you ask most successful entrepreneurs, gamblers, insurers, bookies, or any other risk-takers, theyâ??ll emphasize sound risk management principle and their adherence to this principle as well.

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Donâ??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 â?? if you canâ??t afford to lose something, pay someone to take some of the risk for you. I donâ??t know how many clients I see who donâ??t realise that their primary and biggest financial asset is their ability to earn an income. Rational, responsible people will purchase stocks, bonds, RSPâ??s, TFSAâ??s, RESPâ??s, and all sorts of other acronyms, but will not have enough

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income insurance protection to maintain their lifestyles. **Always ensure what you canâ??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 canâ??t sleep at night it isnâ??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 weâ??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

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

POST TAG

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naoshad

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