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The biggest risk of all, according to the CIO, is failing to meet your goals. (UBS)

How to invest: A lesson in three levels

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CIO breaks down investing into three lessons that cover the building blocks of a portfolio (101), how to identify and measure risks (201), and implementation (301).

Investing 101: The building blocks of a portfolio
An investment portfolio is constructed when assets, typically cash, bonds, or stocks, are placed into a "vehicle," like a mutual fund or an exchange-traded fund (more commonly known as an ETF). Another option is to invest in an asset directly.

Equities (Stocks): Ownership shares in a corporation, representing a claim on the company's earnings and assets. Equities are considered to have higher potential returns compared to other asset classes, but they also come with higher risk. This is because stock prices can be volatile and are influenced by a wide range of factors, including corporate performance, investor sentiment, and economic conditions. Over the long term, equities have historically provided substantial returns, but they can also experience significant short-term fluctuations and even losses.

Fixed Income (Bonds): Debt securities issued by corporations, municipalities, or governments that pay a fixed interest rate over a specified period. Bonds are generally seen as less risky than stocks because they provide regular interest payments, and the principal is returned at maturity. However, they are subject to credit risk, interest rate risk, and inflation risk. The returns on bonds are typically lower than equities, reflecting their lower risk profile. Government bonds are usually considered the safest, while corporate bonds offer higher yields with higher risk.

Cash Equivalents: Short-term, highly liquid investments that are easily convertible to cash, such as money market funds, Treasury bills, and certificates of deposit (CDs). Cash equivalents are the least risky asset class and offer the lowest return potential. They are considered a safe haven during market volatility because they provide stability and preserve capital. However, the returns are often lower than inflation, which can erode purchasing power over time.

Selecting an investment vehicle: Instead of picking individual stocks and bonds, you may want to invest in mutual funds and ETFs. They both provide a mix of different assets to make it easy for investors to diversify their portfolios. However, they trade differently and have other important differences you should know about. For instance, mutual funds are usually actively managed, which means there are managers who are buying and selling assets within the fund in an attempt to beat the market. ETFs, on the other hand, are mostly passively managed; they still have managers, but they are often designed to track a specific market index so it takes less effort.

Investing 201: How to identify and measure risks

In any investing scenario, risk is the most important factor to consider, so it's key to understand what risk is and how to apply an investor's risk tolerance within their portfolio. Each asset class has distinct risk and return characteristics that should be reviewed, but the biggest risk of all, according to the UBS Chief Investment Office (CIO), is failing to meet your goals.

The riskiness of your investments can be measured in various ways. Three examples are volatility, or how uncertain or variable the returns are; tail risk, or how much the investment can lose; and time under water, or how long it takes for the investment to recover from a loss.

You'll want to consider both market risks, risks related to your investments, and non-market risks, which include risks to your human capital (ability to earn an income), longevity risk, liability risk, and property risk, to name a few. CIO recommends not focusing only on investment risk alone, but to instead approach your investments by asking yourself what could keep you from meeting your goals down the road.

Investing 301: Manage risk with UBS's Wealth Way approach

There is no one-size-fits-all strategy to address every type of risk. However, segmenting wealth into three strategies—Liquidity, Longevity, and Legacy—can help clients pursue their financial goals over different timeframes.

- *The Liquidity strategy* is funded with enough cash, bonds, and borrowing capacity to help us maintain our lifestyle, regardless of short-term returns.
- *The Longevity strategy* has enough assets to support our spending for the rest of our lifetime, and is invested in a balanced portfolio approach to generate growth and income to support those needs.
- *The Legacy strategy* represents the excess wealth that we don't plan to spend in our lifetime. Because we've fully funded the Liquidity and Longevity strategies to meet our own needs, this empowers us to invest this capital to maximize growth potential and then distribute it using strategies that will make the most impact on our family, community, and the people and causes that we care about.

Main contributors: Justin Waring, Ainsley Carbone, and Kerry Breen

*UBS Wealth Way is an approach incorporating Liquidity. Longevity. Legacy. strategies that UBS Financial Services Inc. and our Financial Advisors can use to assist clients in exploring and pursuing their wealth management needs and goals over different timeframes. This approach is not a promise or guarantee that wealth, or any financial results, can or will be achieved. All investments involve the risk of loss, including the risk of loss of the entire investment. Timeframes may vary. Strategies are subject to individual client goals, objectives and suitability.

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