ASX

Schools Sharemarket Game 2020

25 September Newsletter – Getting to grips with risk

Managing risk

All investments involve some risk. The skill is learning how to manage it.

Billionaire Warren Buffett is one of the world's most famous share investors. He once wrote that there are two rules for investing: "Rule No 1: Never lose money. Rule No 2: Never forget rule No 1."

Losing money not only sets you back, it also means you have to earn even more just to catch up. Let's say you lost 20% of your $50,000 capital in the Sharemarket Game – a fall of $10,000. Since you would only have $40,000 left, you would need to earn a 25% return to get back where you started. That's why protecting your capital is so important.

The good news is that there are simple steps you can take to lessen risk and increase your changes of success.

Types of risk

Here are some of the kinds of risk you might want to think about before buying shares:

- Market risk: the risk that the whole market might fall, often because of issues with the economy. Some shares suffer more from market risk than others. For example, an electricity company with a steady income might fall less than the rest of the market in a recession.
- Legislative risk: the risk that changes in government policy could affect a company's income.
- Commodity price risk: when the price of commodities like gold or iron falls, that can affect the share price of the mining companies that sell them, while rising prices can affect the companies that buy them.
- Exchange rate risk: the effect of changes in the Australian dollar on the price of companies who are based overseas or have overseas clients.
- Industry disruption: technology changes that can put big, successful companies at risk – like digital photography did to Kodak.

Investing for the long term

While it's important to think about risk, it's also important not to over-react to short-term market ups and downs. Share prices can change quickly from day to day – but history shows that in the long term the market tends to rise.

The longer you're investing, the more time you'll have to ride out the ups and downs before you sell, enjoying any dividends along the way. That's why shares are best used as a longer term investment.

Tip
In long-term investing, panic selling can lead to you making a loss, only to see the share price rise again later. So it’s important to stay calm and stay invested for the long term.

Four ways to manage your risk

1.- Diversify, diversify, diversify! “Diversifying” means investing in a range of different companies and sectors to spread your risk. When you’re diversified, a poor result from one of your investments affects you less, because your other investments can help make up the difference.

2.- Know how much risk you’re happy with. If you’re happy to take more risk, your portfolio might have more fast-growing startups or companies that move up or down with the economy. If you prefer less risk, it might have more companies selling essential services in sectors like utilities, telecoms and healthcare.

3.- Do your research. Rather than just following the herd, only invest in a company or sector you understand and whose performance you believe you can predict.

4.- Stop your losses. A falling sell or stop loss can help you keep any losses within acceptable bounds by automatically selling shares when their prices fall below the trigger level you set.

Game tip:
To place a falling sell:

1. Click **Game play > Place an order**.
2. Click **Sell**, then under **Order type**, click **Falling sell (stop loss)**.
3. Enter a **trigger price** (the price that will automatically trigger an order), and the **limit price** (the lowest amount you’ll accept). For example, if you wanted to sell a share when it fell below $10, for a minimum of $9.50 a share, you would enter a trigger price of $10 and a limit price of $9.50

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GAME UPDATE

Top 5 syndicates - 24 September 2020:

#	Syndicate	Portfolio value	School	State/Country
1	JesseS	$55,898.53	Waimea College	NZ
2	Dumpster Money 9	$54,829.02	MacKillop College	NSW
3	Damian	$53,780.35	Caroline Chisholm Catholic College Junior School	VIC
4	Missed Opportunity	$53,775.69	Sydney Boys High School	NSW
5	Malakai Herweynen	$53,698.28	Southern Christian College	TAS

Most improved syndicate
Syndicate name: The Merchants
School: Bendigo South East College VIC
Weekly change: 7.1%
Portfolio value: $48,426.62