Upcoming Risks to bear in mind

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Investment and risk taking have always been part and parcel. There is no risk-free investment, risk-free profit, or any way to avoid risk taking in our financial activities. When it comes to investing though, risk must not be inhibitor but a factor to be managed.

We can distinguish risk sources to two different categories. On the one hand we have the quantitative risk factors like the market volatility, liquidity, volume etc. On the other hand, we have the qualitative factors which are nothing more than macroeconomic, political, and other developments affecting financial markets in an unpredictable way.

Currently, we are facing the coronavirus crisis which is the main source of uncertainty and markets volatility. It would be a mistake though to oversight other risks that need to be taken under consideration during our investment decision process. Before the coronavirus crisis dominate the news, we were closely watching Middle East's geopolitical tensions, global trade disputes, protectionism policies and a global synchronized macroeconomic slowdown. All these risks have not disappeared. They are staying in the background ready to take their revenge for being neglected!

An additional risk would be a second wave of the corona virus and a potential second round of lockdowns in the autumn. All those risks can either evolve gradually or play a black swan role. The real question is how can we manage so many and critical risks without staying uninvested?

First and foremost, we must keep our portfolio partly invested so that we will be able to get in the markets after a potential future short-term dip. Additionally, we must keep the invested part of our portfolio well diversified using uncorrelated assets. Do not forget that during panic cross-asset correlation tend to soar as a wave of investors sells everything to get cash in hand.

Our second precautionary measure would be a kind of insurance to our portfolio. Meaning a position that will be profitable in case of a market crash. There are several ways to implement such a tactic. We provide our approach in real time through our publications.

Finally, we stand ready to react in any sudden change to the global environment based on our scenarios. We must create alternative scenarios of global and market developments and come up with trading tactics if a scenario comes true. It is essential that we have predetermined reaction to any event. By doing so, we do not spend valuable time to come to a decision under pressure and we keep ourselves emotionally protected.

To sum up, risk taking should not be a reason not to invest. In contrary we must undertake adequate risk management measures and procedures to keep our investments immune to great drawdowns and take advantage of market fluctuations this period.