

Risk Illustrations - Capacity For Loss

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Complete the capacity for loss questions below to audit the discussion around whether committing to an extended term is appropriate for your client.

The screenshot shows the 'Risk Illustration' interface in Synaptic Pathways. The top navigation bar includes 'Home', 'Paraplanner Access Centre', 'Contacts', 'Research', 'Portfolio Builder', 'Investment Pathways', 'Generic Funds', and 'Configuration'. The main content area is titled 'Risk Illustration' and features a progress bar with steps: 'Investment Details', 'Capacity For Loss', 'Outcome', and 'Report'. The 'Capacity For Loss' step is currently active. Below the progress bar, there are several data points: Term of Investment (10 Years), Initial Amount (£200,000.00), Growth Basis (Without inflation), Total Solution Cost (1.40%), Investment Risk Category (Balanced (Low End)), Objective Risk Category (Moderately Cautious (High E...)), Expected Outcome (Mean Gain) (£367,113.03 or 67.63%), Regular Contribution (£200.00 / pm), Regular Withdrawal (£500.00 / pa), Rebalanced Annually (Yes), Potential First Year Loss (14.88% or £30,042.72), Investment Scenario Pathway (Vanguard LifeStrategy 60% Equity A Shares Acc.), Lowest Outcome (Min. Gain) (£204,895.00 or -6.44%), and Highest Outcome (Max. Gain) (£578,153.00 or 164%).

The 'Capacity For Loss' section contains six questions for the user to answer. Each question has a set of radio buttons for the response options. The questions are:

- My Client will need to start spending the investment return at the following point in the future. Options: < 5 yrs, 5 to 9 yrs, 10 to 14 yrs, 15 to 19 yrs, > 20 yrs.
- My Client doesn't have any significant outstanding debts and doesn't expect to incur any during the period of the investment (eg, mortgage or credit cards). Options: Strongly Disagree, Disagree, No Opinion, Agree, Strongly Agree.
- My Client's spouse, partner or family member is likely to be able and willing to support them financially if circumstances require. Options: Strongly Disagree, Disagree, No Opinion, Agree, Strongly Agree.
- It would be relatively easy for my Client to cut expenditure in retirement if circumstances require. Options: Strongly Disagree, Disagree, No Opinion, Agree, Strongly Agree.
- My Client is flexible about their investment horizon. They could wait before using their investment. Options: Strongly Disagree, Disagree, No Opinion, Agree, Strongly Agree.
- In consideration of sequence risk, in the worst case scenario, my client can afford to lose 14.88% or more, in any one year, defined as the worst year of returns in the forecast, assuming a 20 year term. This equates to the 5% (or 1 in 20) worst outcomes from the Moody's mathematical simulation. This may... Options: Yes, No.

On the right side of the screen, there is a 'Confirmation of Capacity for Loss using the Moody's 'Value at Risk' Measure' section. It states: 'A Client should not be exposed to risks they do not understand, nor are willing and able to take.' It also mentions that the Moody's research investment item calculates a 'min gain' value for the investment scenario which are displayed in question 6. The 'min gain' is a stochastic value from the Moody's Analytics research investment item and indicates the extent of losses expected in a 'bad year', defined as the worst performing year in a 20 year term or a 5% probability. Advisers should use the 'min gain' to quantify possible losses in the short term and make a judgement as to whether losses are affordable to the client. A Client who is unprepared for loss is likely to sell up and crystallise losses, forgoing the opportunity to recover. The longer money can be invested, the better the returns are likely to be. Capacity for Loss increases with term, so extending and recording a client's commitment to their investment horizon is an essential part of investment planning, risk management and proof of suitability.

At the bottom of the screen, there are 'Back' and 'Continue to Next Step' buttons.

If you would like to add MiFiD compliance supporting notes, add them here:

[Supporting Notes to meet MiFiD Compliance](#)

Rich text editor interface for adding supporting notes. The toolbar includes options for font face (Salesforce Sans), font size (12), bold (B), italic (I), underline (U), strikethrough (ABC), bulleted list, numbered list, indent, outdent, link, and unlink. Below the toolbar is a text input area with the placeholder text 'Enter supporting notes here'.

For further information on Risk Illustrations screen, see the below article:

[Risk Illustrations - Suitability](#)