

# 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 displays the Synaptic Pathways Risk Illustration interface. The top navigation bar includes 'Synaptic Pathways', 'Home', 'Paraplanner Access Centre', 'Contacts', 'Research', 'Portfolio Builder', 'Investment Pathways', 'Generic Funds', and 'Configuration'. The current page is titled 'Risk Illustration' and shows a progress bar with steps: 'Investment Details', 'Capacity For Loss', 'Suitability', 'Compliance Details', 'Report Content', and 'Advanced Options'. The 'Capacity For Loss' section is active, showing a questionnaire with six questions and response options. A 'Confirmation of Capacity for Loss using the Moody's 'Value at Risk' Measure' sidebar is also visible.

Term of Investment	Initial Amount	Growth Basis	Total Solution Cost	Investment Risk Category	Objective Risk Category	Expected Outcome (Mean Gain)
10 Years	£200,000.00	Without inflation	1.40%	Balanced (Low End)	Moderately Cautious (High E...	£367,113.03 or 67.63%
Regular Contribution	Regular Withdrawal	Rebalanced Annually	Potential First Year Loss	Investment Scenario Pathway		Lowest Outcome (Min. Gain)
£200.00 / pm	£500.00 / pa	Yes	14.88% or £30,042.72	Vanguard LifeStrategy 60% Equity A Shares Acc		£204,895.00 or -6.44%
						Highest Outcome (Max. Gain)
						£578,153.00 or 164%

**Capacity For Loss**

Use the Capacity for Loss Questionnaire to audit the discussion around whether committing to an extended term is appropriate for your client.

It will not be appropriate to commit the client to long term savings if they cannot commit to leaving the funds invested long term.

- My Client will need to start spending the investment return at the following point in the future.
  - < 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).
  - 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.
  - Strongly Disagree
  - Disagree
  - No Opinion
  - Agree
  - Strongly Agree
- It would be relatively easy for my Client to cut expenditure in retirement if circumstances require.
  - Strongly Disagree
  - Disagree
  - No Opinion
  - Agree
  - Strongly Agree
- My Client is flexible about their investment horizon. They could wait before using their investment.
  - 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
  - Yes
  - No

**Confirmation of Capacity for Loss using the Moody's 'Value at Risk' Measure**

A Client should not be exposed to risks they do not understand, nor are 'willing and able to take'.

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.

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

## Supporting Notes to meet MiFiD Compliance

Enter supporting notes here

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

## Risk Illustrations - Suitability