

# Risk Management

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We all face risks in our daily lives. A good risk management strategy should identify your risks and take action to reduce the probability and or consequence of the risk. The method to managing risk usually involves the following:

1. Identify, characterize, and assess the risk
2. Assess the probability and consequence of the risk
3. Identify ways to reduce the risk
4. Prioritize risk reduction measures based on a strategy

Some examples of the risks you face include physical disability or death, loss of property, personal liability, and investment fraud. When addressing these risks, the following four strategies should be considered:

1. **Avoid Risk:** Typical strategy for events that have a high probability of occurrence and have severe consequences.
2. **Reduce Risk:** Taking action to reduce either the probability or consequence of the risk.
3. **Retain Risk:** Unanticipated events will occur in all of our lives. It is often best to accept and retain the risks that have low probability and low consequence.
4. **Transfer Risk:** Risk transfer is typically done through insurance. The insurance company will be under contract to make you whole if the event occurs. Low probability, high consequence risks should be considered for transfer.

The following pages include a table for listing the risks you foresee in your life. Each risk should be listed and the probability and consequence of the risk should be ranked as low, medium, or high. For example, the probability of your house burning down is very low. However, the consequence of that event would be very significant.

Once you have listed the potential risks, the corresponding risk number should be added to the risk matrix. In the example above, the risk of fire would probably fall in the low probability/high consequence quadrant. The matrix will give you a visual of how much risk you are currently taking in your life. The goal is to minimize the number of risk events that end up in the far right column. We recommend risk transfer strategies for low probability, high consequence risks and avoidance or reduction strategies for high probability, high consequence risks.

For each event identified, a risk management strategy should be listed on the second table. In addition, an adjusted probability and consequence rating should be given once the risk reduction strategy is implemented. These adjusted ratings can be placed in the second matrix to give you an idea of the impact that your strategies will have on your risks. Continuing with our example, if you purchased fire insurance on your home, the new rating of that risk would be low probability/low risk. You have successfully shifted that risk from the right column to the left column.

Rate the probability and consequences (based on severity and cost) of each event on a scale of low (L), medium (M), and high (H).

**Probability**

- Low Almost certain not to happen
- Medium Probably will happen
- High Almost certain to happen

**Consequence**

- Low Very little financial impact
- Medium An uncomfortable but manageable financial impact
- High A huge financial impact that would radically change your lifestyle

	Event	Probability	Consequence
1			
2			
3			
4			
5			
6			
7			
8			
9			
10			

Place each risk by number above into the matrix below.

<b>Probability</b>	High			
	Medium			
	Low			
		Low	Medium	High
		<b>Consequence</b>		

List each risk below with the risk management strategy to be taken. Take the adjusted probability and consequences of each event after applying the strategy.

	Risk Management Strategy	Probability	Consequence
1			
2			
3			
4			
5			
6			
7			
8			
9			
10			

Place each event into the matrix below with the adjusted probability and consequence.

<b>Probability</b>	High			
	Medium			
	Low			
		Low	Medium	High
		<b>Consequence</b>		

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