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MoneyVoices: Why Risk Should Guide Wealth Management

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Guest Columnist: Simone Rondelli is co-founder and CEO of Four Partners, a financial advisory company serving entrepreneurial or family global wealth.

Over the past 18 months, financial disarray has beaten up entrepreneurs and investors.

This is not just a crisis. Reading the financial dynamics together with current geopolitical development, it looks plausible that we are heading to an economic and financial "revolution."

The most critical risk lies in underestimating the magnitude of future changes and not being prepared.

The entire private sector - not only large corporations - must avoid the temptation to go after speculative opportunities based on the assumed cheapness of market valuations. On the contrary, the near future offers an invaluable window to implement a more sophisticated and professional risk management discipline than we've used in the past.

High-net-worth individuals traditionally seek protection and growth of their individual assets, but have sometimes neglected the relevance of comprehensive risk assessment. Under current conditions, that can no longer be accepted. It is of paramount importance to improve risk assessment with regard to personal wealth in its entirety.

An integrated analysis of all economic factors affecting each asset class composing individual wealth could facilitate both the detection of overlapping exposures and a reliable financial assessment of overall personal possessions.

For example, in March 2008 we did a risk analysis on the full assets of an entrepreneur looking to rebalance his family's capital structure. He had been considering moving some liquid assets into financial products, but instead accepted our advice to repay part of his ongoing business debt. Anticipating the risk of increasing interest rates, our risk analysis suggested that no asset class was likely to offer medium-term returns higher - without boosting his overall risk profile - than the forecasted cost of debt.

Understanding such financial interactions entails a twofold advantage: it allows for

mitigation of risks within the asset allocation and it sets the technical support to re-direct resources in order to optimize the 'higher return - lower risk' profile in the future.

Retail investors can take proactive actions now. They can scrutinize their investment portfolio by investigating characteristics of every financial product in their portfolios, assess counterparty risks and review the degree of systemic risk affecting each region to which their portfolios are exposed.

The private sector should not simply stand-by nor rush after the "next big deal." Capital preservation is today more important than growth and requires a proactive attitude by all participants in the economic system.

That is why we recommend that future investments and new entrepreneurial initiatives stem from a new mentality, primarily aimed at anticipating and managing future risks.



Simone Rondelli is co-founder and CEO of Four Partners, a financial advisory company serving entrepreneurial or family global wealth. Rondelli together with three former colleagues at JP Morgan, Guido Tugnoli, Domenico Romeo and Alberto Manzonetto, founded Four Partners in March 2007.

Rondelli left JPMorgan in January 2007 as managing director in the investment banking division, after almost 13 years experience with the US firm spent between Milan, London and New York. He mainly worked on M&A and corporate finance deals on the Italian and international markets. During the last four years, he was responsible for the relationship with some of the most pre-eminent family controlled Italian companies.

Rondelli graduated at the Università Cattolica di Milano both in Economics and Business Administration (1991) and in Law (1994)..

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