

Learn to live with risk and reap the rewards

In the past, banks were the safest places for our cash, even if the interest they paid was modest. We left it there and got on with our lives.

Not any more. People are fearful of banks, fearful of currency risks, fearful that the era when deposits were safe is over. Now the risks associated with deposits need to be carefully assessed just like other asset classes such as equities and commodities.

In this new world, our attitude to how we manage cash has to change. Financial security can no longer be guaranteed by managing cash passively, expecting it to be waiting for us when we finally decide to check in on it.

In the present atmosphere of insecurity, however, there is a danger of over-reacting. Every action we take carries some risk. The key is to manage your cash actively, to diversify and thus spread your risk — not to act

HELEN CAHILL COMMENT



on impulse, instinct or panic.

Depositors need to educate themselves on the various banks in Ireland and elsewhere, who owns them and what their credit ratings are. Credit ratings are forward-looking opinions about credit risk and the ability of each bank to meet its financial obligations.

There is normally a direct correlation between risk and investment return. The key issue is to try to achieve a healthy blend of both. Savers should ensure they are being compensated adequately for the amount of risk involved.

People thinking about switching from the euro to a foreign currency need to understand the risks and potential costs. Foreign exchange markets are volatile. A large percentage of the daily movement in exchange rates globally arises from speculation by banks, hedge funds and individuals, all betting in the hope of making money. It has less to do with the requirements of importers and exporters for foreign exchange, making it very difficult to predict whether any currency will appreciate or depreciate over time.

People need to understand that if they switch their euros into other currencies they may have a foreign exchange loss or gain when they convert them back. Avoid the temptation to rush into sterling just because you are familiar with the British currency — take your time and seek advice about how currencies have been trading against the euro over the last 12 months. The margins applied by financial institutions need to be considered when doing foreign exchange conversions. Shop around for the best rates.

Do not rush into anything without fully understanding associated risks.

Helen Cahill is a director of Finance One, an independent financial intermediary that operates Irishdeposits.ie

Standard & Poor's credit ratings

Source: FinanceOne

| | Long-term | Short-term |
|---------------------------|-----------|------------|
| RaboBank | AAA | A1 |
| HSBC Bank plc | AA | A1+ |
| BNP Paribas | AA | A1+ |
| Nationwide UK | A+ | A1 |
| Bank of Scotland | A+ | A1 |
| Deutsche Bank | A+ | A1 |
| UBS | A+ | A1 |
| National Irish Bank | A | A1 |
| Northern Rock | A- | A2 |
| Barclays Bank Ireland plc | A- | A2 |
| KBC Bank Ireland plc | BBB+ | A2 |
| Ulster Bank Ireland Ltd | BBB+ | A2 |
| Bank of Ireland* | BB+ | B |
| Irish Life & Permanent | BB+ | B |
| Allied Irish Bank plc | BB | B |
| Investec** | Baa3 | P3 |

*Please note that in the case of these institutions deposits are guaranteed by the Irish government. Accordingly, depositors should consider the credit rating given by Standard & Poor's to the sovereign - the Republic of Ireland to apply to their deposits - ie: BBB+ / A2. ** Moody's Credit Rating