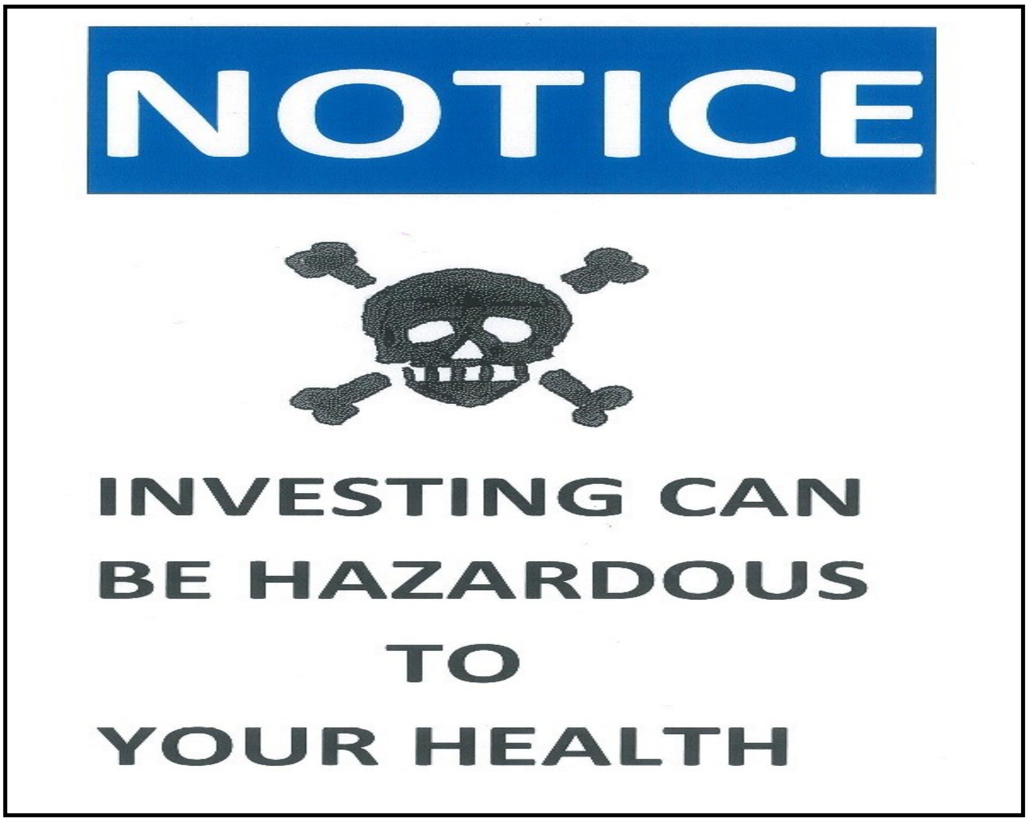

We are all aware that investing is not risk free. Just have a look at last month's ASX performance and if you really want a fright take a look at the last twelve months figures.

That's also part of the reason there is a detailed proviso placed on the bottom of every analysts report and recommendation you read. It should also remind you that you should never invest more than you can afford to lose.

We all know the feeling that when we have a winner, 1stly it's elation, then, "why didn't I invest more money?" We then take our profits and move on to the next challenge, but what happens when the investment doesn't work? We tend to dwell on that investment, reminding ourselves every time we see an announcement or the company is mentioned.

In my job I still receive phone calls from friends and ex-clients who complain about the ones that got away from them, well after they have cashed out of the investment, yet little to no mention of the successful investments. They complain about not being able to sleep or eat plus how their portfolio has taken such a huge hit they are unlikely ever to recover.

Does this mean these people are stupid, greedy or just unlucky? The answer of cause is no they are not, they are just too emotionally involved and invested too much into a single investment!

That got me to thinking about whether some people are just not equipped mentally to be directly involved with the share market. If that is the case how do you regulate or control individual enthusiasm, the short answer is you can't!

Big Brother in the shape of ASIC are likely to be granted new powers that will require warning notices to be placed on *'risky investment products'*, designed to help clean up the financial industry.

So should the implementation of a warning sign similar to cigarette packs be introduced to the trading of stocks and shares, after all as already acknowledged the share market is a risky place.

Would you for instance have put a warning notice on BHP's shares? This is an $86.3 billion company whose shares have dropped by over 43% in the last twelve months. So when would you put the sticker on, when they were happily trading over $40per share, or waited until they dropped to well below $20per share, as they did last month?

So it would appear Blue Chip Stocks may not be immune to ASIC's scrutiny . It is surprising how many people are willing to overextend themselves in big blue chip companies. For some reason they see these multi-billion dollar companies as safe havens, and they're willing to punt a large percentage of their wealth on a single blue chip stock.

That's a big mistake.

As a whole, historically blue chips are less volatile than small-caps, but they are not immune to economic slowdowns, competition, changing market dynamics, or poor choices by management.

BHP is only one example. Woolworths, with a market cap of more than $30 billion, would certainly count as a blue chip. And with most of its revenue derived from consumer staples items we need and use every day you'd expect a rather stable performance. Yet their stock is down 30.8% since this time last year.
Dick Smith Holdings, with a total worth of $75,683,636. This time last year they were trading at $2.20 a share. There where rumors just after their AGM that things may not be as rosy as chief executive Nick Abboud had outlined in his gloomy forecasts, did ASIC step in at that stage to issue a warning notice to investors? Nope! They opened at 28c on the 1st December, too late for any warnings I'd suggest.

In case you're thinking we chose these companies just to make a point, let's dig a little deeper.

Have a look at the chart below. It shows the performance of the ASX 200 (that's the largest 200 listed companies) since the start of 2015. The results? The index is down 3.56%.

Source: Yahoo Finance

Now look at the following chart. It's the ASX Small Ordinaries, comprised of the smallest companies.

Source: Yahoo Finance

As you can see this index is up since the start of the year, by 1.66%. Now that's not a blistering return, but it's 5.22% better than the large-cap stocks offered.

Obviously this won't always be the case. But it does highlight how hard it is to pinpoint risk at any given time for any given investment.

Will this move to risk label companies be a help or a hindrance to the average investor?

Firstly it will make it easy for the investor to see that someone out there believes that 'This Company' may or may not have the correct ingredients to succeed'.
It's certainly not a bad idea to give investors the heads-up about potential risks.
Although in our experience, a proliferation of warnings generally leads people to start tuning them out.

More seriously, is the fact that these warnings will be placed only on companies that ASIC perceives as risky investments.

What they're missing here is that every investment comes with risk. The Sydney/Melbourne real Estate markets are a complete risk story in themselves, investing in wine, cars or stamps will not keep you immune to down turns or whims, again high risk.

Given this, ASIC's planned warning labels may do more harm than good. That's because you could be falsely led to believe that an investment without a graphic warning label must be safe.

ASIC of course will argue that any intervention by them into the financial industry is a good thing for the "Mums and Dads and Investors" out there.

The big question that hasn't been asked is how far do you take it?
By listing all investments as risky you remove totally the usefulness of the warning.

In some circumstances ASIC can already issue a notice warning the public about the conduct of a person in relation to financial services: see *Australian Securities and Investments Commission Act 2001*, s12GLC. Although these warnings are few and far between notices.

At this moment ASIC do not have any plans to widen the net to include "Investments" only high risk financial planners and financial funds, while this legislation is in place there will always be the temptation to broaden the net for the protection of the average investor.

Material Source: ASIC, ASX, The Daily Reckoning, Bernd Struben, November 11 Article. The Australian Financial Review: '*A host of complex and risky financial products could have investor warnings slapped on them, in the same manner as the graphic warnings on cigarette packets, under new safeguards being considered by the corporate regulator.*'