

CFA® Exam Tips - LEVEL III

Study Tips

Private Wealth - Risk Management (Insurance) for individuals

Risk Management Techniques

Loss severity	High Frequency	Low Frequency
High	Risk Avoidance	Risk Transfer
Low	Risk Reduction	Risk Retention

Approaches: Allocation of appropriate type of Insurances (e.g. Annuity or Life Insurance to fully/partially hedge risks of HC/FC)

$$\begin{aligned} \text{Total Wealth} &= \text{Human Capital (HC)} + \text{Financial Capital (FC)} \\ &= \text{PV of all future earnings} + \text{All physical assets} \end{aligned}$$

Strategies

1. Determine Amt of Systematic Risk through Asset Allocation based on individual's risk profile
2. Avoid/Reduce/Transfer idiosyncratic risk through Diversification or Insurance



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