Mismatch risk

Contributed by Travis Morien

"Risk comes from not knowing what you're doing." - Warren Buffett

Mismatch risk is the risk that you are investing in something that is inappropriate for your investment needs. Keeping you clear of this risk is one of the major tasks of a financial planner when discussing investments.

I will give this one a decent going over in the article on risk profiles and asset allocation in the managed funds section of this FAQ. Suffice to say for now that mismatch is where you choose an investment that is long term (like shares) for a short term objective (like next week's groceries), or a short term non-growth investment (like cash and bonds) when your time frame is long term (retirement in 20 years).

You also make a mismatch error when you have an uncertain cash stream and no other assets to back you up but invest with leverage. No one should ever gear if they don't have the ability to pay for a mortgage at twice the interest rate and meet margin calls at inopportune moments, something you ought to stand on a chair and scream out loud while attending seminars given by real estate promoters or futures brokers.