

Do You Know Your Risk Tolerance?



Marie Cantone
November 2010

Do you know your “TRUE” tolerance for risk when it pertains to your financial planning?

The following are some ideas to keep in mind when you are evaluating your personal tolerance for risk:

- ***Each investor has a multitude of risk tolerances that vary with specific financial goals.*** Planning for a child’s education, saving money for a down payment on a home, investing for retirement all have different time horizons and call for different levels of risk.
- ***Some risk tolerance questionnaires measure an investor’s tolerance of only one dimension of risk: willingness to chance a big loss in pursuit of a big gain.*** You may fit into a neat box labeled aggressive, moderate or conservative; however, such categories may overlook your response to short term risk –or volatility - and fear of the unknown. For example, you might battle your fear of losing money until it overwhelms you, and then sell everything at the worst time. On the other hand, research has shown that investors often feel regret when they miss an upward move that they finally break down and buy just as stocks peak.
- ***A traumatic financial experience at a relatively early age can lower a person’s risk for tolerance.*** Many young investors are acting conservatively due to the economic turmoil experiences in the recent past.
- ***Major life events can change your tolerance for risk.*** Positive occasions such as landing a well-paying job, getting married or paying off a mortgage could increase an investor’s tolerance for risk. On the other hand, bankruptcy, loss of employment or poor health could understandable lead to a more cautious approach.

Why is this important? The more you understand the degree of risk you can tolerate, the better it will be. It all comes back to discipline and knowing what allows you to sleep at night.

Marie Cantone | Sound Wealth Financial Group
80 Crossways Park West, Woodbury, NY 11797
| Tel: 516-677-6287 | Tel 2: 631-261-7748 |
Mobile: 631-433-0656
mariecantone@glic.com