

What's Your Risk Tolerance?

Going into a New Year with hopefully better economic and market prospects, it is a good time to start researching investments. With that, it is also a good time to review how much risk you are willing to take on when making those critical decisions. It is reasonable to assume your risk tolerance has changed in recent years.

Assessing one's risk tolerance goes beyond your instinctive willingness to say "yes" or "no" on a particular financial move. It goes beyond one's instincts. It means re-examining the realities of what you need in life and how you are going to serve those who depend on you. It also means taking into account the economic turmoil of the past few years to determine what an effect those pressures have had on you.

There has been plenty of theoretical work done on risk tolerance and what kind of people choose various investments or simply choose not to participate at all. In 2008, [TransAmerica](#) released its CURE retirement study (CURE standing for Change, Uncertainty, Risk and Expectations) in which it revealed four basic investing personalities:

- *Venturers* take a "nothing ventured, nothing gained" attitude with their money, but their potential pitfall is that they are overconfident in their level of preparedness.
- *Anchored individuals* always "stay on the safe side," but extreme risk aversion might leave them unprepared.
- *Pursuers* will "try anything once" but their continual efforts to grab at new directions might leave them without a clear plan.
- *Adapters* take investment situations "as they come" but may not be realizing their full potential as investors.

Whether one of those personalities resonates with you or not, the best way to start planning your finances or to revisit your current financial plan is to meet with a qualified financial expert. If you have never worked with a financial planner before, one of the first steps in the process will be reviewing or filling out a risk analysis questionnaire.

Why is risk analysis important before you make decisions with your money? Risk tolerance is an important part of investing – everyone knows that. But the real value of answering a lot of questions about your risk tolerance is to tell you what you don't know – how the sources of your money, the way you made it, how outside forces have shaped your view of it and how you're handling it now will inform every decision you make about it in the future.

Here are some of the questions you might be asked as a formal starting point with a planner:

1. What is important about money?
2. What do you do with your money?
3. If money was absolutely not an issue, what would you do with your life?

4. Has the way you have made your money – through work, marriage or inheritance – affected the way you think about it in a particular way?
5. How much debt do you have and how do you feel about it?
6. Are you more concerned about maintaining the value of your initial investment or making a profit from it?
7. Are you willing to give up that stability for the chance at long-term growth?
8. What are you most likely to enjoy spending money on?
9. How would you feel if the value of your investment dropped for several months?
10. How would you feel if the value of your investment dropped for several years?
11. If I had to list three things you really wanted to do with my money, what would they be?
12. What does retirement mean to you? Does it mean quitting work entirely and doing whatever you want to do or working in a new career full- or part-time?
13. Do you want kids? Do you understand the financial commitment?
14. If you have kids, do you expect them to pay their own way through college or will you pay all or part of it? What kind of shape are you in to afford their college education?
15. How does your spouse, fiancé or future partner feel about money and how do those views echo or differ from your own?
16. Are there other people in your life who might become financially dependent on you? If so, what might their needs be?
17. How is your overall health and your health insurance coverage?
18. What kind of physical and financial shape are your parents in?

Risk tolerance is not so much about dreams and whim as it is about how all the day-to-day lifestyle and money issues affect your perceptions. Some of us need a reality check more than others. A financial professional will understand this challenge and can help you think through your choices. Your resulting portfolio should feel like a perfect fit for you.

However, a planner can help you do much more than control risk on the investment side. You can also work to develop an emergency fund that will support you in case you lose a job or go through a protracted leave of absence due to health or caregiving issues – a significant way to manage risk.

A planner can also make sure you have a disaster plan in place in case you are disabled or your home is hit by a natural disaster. Financial risk can take many forms, and a planner can help you work through those issues key to your lifestyle.