Determine Your Risk Tolerance

Each individual has a risk tolerance that should not be ignored. Any good stock broker or financial planner knows this, and they should make the effort to help you determine what your risk tolerance is. Then, they should work with you to find investments that do not exceed your risk tolerance.

Determining one’s risk tolerance involves several different things. First, you need to know how much money you have to invest, and what your investment and financial goals are.

For instance, if you plan to retire in ten years, and you’ve not saved a single penny towards that end, you need to have a high risk tolerance – because you will need to do some aggressive – risky – investing in order to reach your financial goal.

On the other side of the coin, if you are in your early twenties and you want to start investing for your retirement, your risk tolerance will be low. You can afford to watch your money grow slowly over time.

Realize of course, that your need for a high risk tolerance or your need for a low risk tolerance really has no bearing on how you feel about risk. Again, there is a lot in determining your tolerance.

For instance, if you invested in the stock market and you watched the movement of that stock daily and saw that it was dropping slightly, what would you do?

Would you sell out or would you let your money ride? If you have a low tolerance for risk, you would want to sell out… if you have a high tolerance, you would let your money ride and see what happens. This is not based on what your financial goals are. This tolerance is based on how you feel about your money!

Again, a good financial planner or stock broker should help you determine the level of risk that you are comfortable with, and help you choose your investments accordingly.

Your risk tolerance should be based on what your financial goals are and how you feel about the possibility of losing your money. It’s all tied in together.

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