



**Fourth Quarter 2019**

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## **What is Your Real Risk Tolerance?**

At the start of an investment advisory relationship, one of the questions we typically ask our clients is *"How much risk are you willing to take?"* Your answer may be in terms of percent of portfolio losses, dollar amounts, loss of initial capital or a score from a risk assessment questionnaire. That information, combined with more concrete data, such as years until you will need to withdraw your funds and how much money you have saved to date, is used to establish a risk weighted investment plan we believe will allow you to have the money you need, when you need it. Equally important, it has to result in a portfolio you are willing to hold through good markets and bad.

The problem is that risk "tolerance" is relative.

When you first answered the question, a number of factors influenced your response from current market conditions to your mood, prior investing experience, your sex, marital status, how you view your current level of financial security, job security and more.

With the exception typically of your sex, everything else is subject to change. In positive markets, people tend to be more willing to take on risk, assuming that losses can be quickly recovered. When markets turn down, risk tolerance changes. Behavioral finance has proven that losses have a greater emotional impact than gains and can distort risk tolerance by making an individual (1) less willing to incur additional losses or (2) willing to take on greater risk to make up for lost portfolio value.



fund your needs with low-risk assets, perhaps there is no need to have a higher risk tolerance level in your portfolio.

To make certain risk levels in your portfolio match your risk capacity, we ask that you call and talk with us. We need to know if there are changes in your life that necessitate changes in your portfolio, and if at any time you are not comfortable with your portfolio and how it is invested. And, we appreciate the opportunity to explain our investment strategy and its current performance. Our goal is a long-term relationship with you. Communication is a key part of that relationship.

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