



Risky business: risk capacity versus risk tolerance

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Is it more important to eat well or sleep well? I've heard this question used to describe the trade-off between earning higher returns or having less risk in your investment portfolio. While there are many factors that go into selecting the right investment mix, the two I most often see confused are risk tolerance versus risk capacity. While the word "risk" is in both, these two factors address different aspects of your investment portfolio.

Think of risk tolerance as your psychological or emotional willingness to accept losses while risk capacity is whether you have the financial resilience to handle those losses. Most people have heard of the concept of risk tolerance, especially after a significant decline in stock prices when you hear stories of people panicking and selling stocks. This typically occurs after a person's threshold for risk has been violated. Our emotions take over and no amount of reasoning can change the outcome. We all have different risk tolerances which can also be described as our appetite for risk.



Contrasting our emotional fortitude when it comes to investing is the ability of our personal finances to absorb unexpected outcomes. Risk capacity incorporates characteristics such as your time horizon, age, other financial assets and need for portfolio income to determine whether you can recover from negative financial events.



It's important to separate risk tolerance from capacity because these two items are not always in alignment. For instance, a family sending a child to college next year may have very high risk tolerance (i.e. stock market losses don't scare them) but they have a very low risk capacity because they need the money within a short period of time and don't want their child to delay going to college because their account value suffered significant losses.

A reverse scenario is the 25 year old who is told they should invest everything in stocks because they're young and won't need the money for decades. While their risk capacity is high, if they have a low risk tolerance, they're going to have some very restless nights when the stock market goes down potentially leading them to abandon stocks altogether.

After six positive years of gains in the U.S. stock market, now is a good time to ask yourself whether you can stomach a significant decline and whether you have the financial ability to withstand the decline. If the answer to either is no, it may be time to take action.



Upcoming presentations at our office!

Frustrated by financial jargon? Do you know the difference between a stock and a bond? How much are you really paying for your investments? Whether you are retired or preparing for retirement, we encourage you to attend our **Snapshot of Investing Philosophies presentation on Thursday, April 16, 6:30 p.m. to 8 p.m.** You'll leave feeling more comfortable about asking questions about your portfolio and have a better understanding of investing basics. Think of it as "Investing 101."

There are also a few seats left for **March 19, 6:30 p.m. to 8 p.m.** Our **Social Security and You workshop** provides the basics of Social Security. Learn how benefits are determined, about the implications of claiming now versus delaying benefits, and how different claiming strategies can significantly impact your retirement income sustainability.

Our workshops are offered at no-cost and guests are welcome. Seating is limited, so please reserve your spot(s) by calling 262-554-4500 ext 105.

Stay tuned for our new look!



Next month, Financial Service Group will be revealing our refreshed logo. You'll begin seeing our new look in our newsletter, on our website and social media, and in our print materials beginning in April. We'll be eager to hear what you think!

Justin's quote of the month

From *Barking Up The Wrong Tree – 7 Secrets Top Athletes Can Teach You About Being The Best At Anything*
"When all your efforts are things that you can do easily and without thinking about them, you're not going to improve."