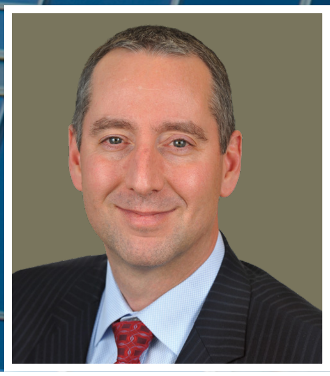

DEAN DESPAS, CIM

INVESTMENT FOCUS

Risk Tolerance: Shouldn't Change with the Markets

One of the questions we've had from clients during the prolonged bull market is: how often should I change my risk tolerance?

The answer is — likely, not often.

Risk tolerance is the personal comfort level that an investor has with financial risk in the markets. In the most basic sense, it is your ability to stomach swings in the markets in exchange for potentially higher future returns. Risk tolerance doesn't vary greatly. Consider the answer to this question: how would you respond to a 15 percent drop in your investments? Most people's reaction and level of comfort in this situation would likely not vary over time.

With time and evolving circumstances, however, your capacity to take on financial risk may change. This is your ability to withstand a financial shock and it may have an impact on your risk tolerance. Here are some events that may impact risk capacity:

A major life event, such as a marriage or having kids. Marriage or the birth of a child may lower your capacity for risk as you account for large expenses, such as a new home or a child's education. Often, spouses differ in their risk tolerance levels. Some studies have shown that men tend to have a higher risk tolerance than women, so common ground may need to be reached when managing finances.

A health crisis. Unexpected medical bills or your ability to generate income into the future may impact your timeline and ability to achieve your financial goals.

Changes to net worth or income. Your level of wealth may impact your capacity for risk. For instance, the greater your excess income, the easier it may be to weather a downturn without it affecting your lifestyle.

One Reason to Adjust Risk Tolerance: Age

As you age, changes to risk tolerance levels should be expected. You may become more risk averse because you may not have the same sources of income and you will need to preserve your wealth for retirement. With a shorter time horizon, recovering from market volatility may be also more challenging, which may prompt you to lower your risk tolerance level.

When Not to Make Adjustments: Fluctuations in the Markets

Your risk tolerance should not fluctuate based on market conditions. Changing your risk tolerance in response to market performance can be seen in a similar light to attempting to time the markets by buying and selling shares to predict future market price movements. It may be tempting to want to lower your risk after you have incurred a loss, just as you might want to raise your tolerance after benefitting from a gain. But the performance of your portfolio or the markets, and the emotions of fear or greed, should not be a cause to re-evaluate your tolerance to risk.

Please Get in Touch

If you have any questions about this, or any other investing matters, please call.

National Bank Financial – Wealth Management
Suite 200, 239 – 8th Ave. S.W.
Calgary AB T2P 1B9
Tel.: 403-531-8400
Toll Free: 1-877-531-8400
Fax: 403-531-8413

Dean Despas, CIM
Investment Advisor
Senior Vice-President
Direct: 403-531-8431
Cell: 403-630-0243
dean.despas@nbc.ca

Charlene Procyshen, B.ADMIN
Senior Investment Associate
Direct: 403-531-8463
charlene.procyshen@nbc.ca

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