# THE TOP TEN WAYS TO INCREASE YOUR INVESTMENT RISK TOLERANCE

We have all heard, over and over again, that to earn higher investment returns we need to take on more risk. This is absolutely true. The only thing we really know about investing is that the higher the reward, the higher the risk.

However, taking on more risk than you can personally handle almost inevitably leads to disaster. When the going gets rough (and it will!) you risk panicking and losing a lot of money. Therefore one of the best exercises we can do to help us earn higher investment rewards is to increase our tolerance for risk. Even if the last thing you want to do right now is increase your investment risk, this list should help you get a better night's sleep.

**1. Lengthen your time horizon**
The further out your investment time horizon the more risk you can take. A good general rule is that if you need the money within five years, it should be invested very conservatively. (i.e. short term bonds and money market instruments).

**2. Check your investment results less frequently**
If you check your investments daily, trying doing it once a week. If you check weekly, try monthly and so on. Numerous behavioral finance studies show that risk tolerance increases as our investment evaluation period increases. Young children with mutual funds bought for them by their Grandparents are often the best investors. They never check the results (they don't even know they have investments) and so ride out all kinds of market gyrations to very high long-term results.

**3. Look at the big picture**
Individual parts of a diversified investment portfolio may have wild swings making your overall investment program appear very risky. If you are well diversified, you will probably always have a few investments that are losing money in a given year. (That is a good thing - it means you are properly diversified!) However if you step back and look at all your investments as one investment pool, it will be far more stable. Seeing the stability of the overall portfolio will allow you to increase the risk of individual investments within the portfolio.

**4. Avoid overconfidence**
Overconfidence in one's investment ability, especially during periods when one is doing well leads people to make bigger and more aggressive decisions. If these decisions turn out badly, as they often do, the investors' confidence is shaken drastically as the ego (and investments) comes crashing down to earth. By avoiding overconfidence you will also avoid underconfidence. A realistic, stable sense of yourself and your abilities make for a higher tolerance for risk.

**5. Educate yourself**
People are naturally afraid of the unfamiliar. The more you learn about investing the more comfortable you will become and your risk tolerance will increase. A great place to start is a book called "Investment Policy - How to win the Loser's Game" by Charles Ellis. As a general rule try and get your investment information from books or classes and avoid the popular media. Send a note to Robert@rhmv.com for a reading list to get you started.

**6. Build an investment support group**
This can be a formal investment club or just a group of people whom you can discuss your investments with. Ideally the group would be far removed from Wall Street and the investment community. They should also be non-judgmental and share common investment strategies. An independent, non-competitive investment group will help you see your investments decisions clearly and keep you from over-reacting to news headlines and every twist and turn in the market.

**7. Carefully analyze how much money you can lose before making an investment**
Marketers of investment product try to focus your attention on how much you can make if an investment succeeds but the more important questions is how much you can lose if things go wrong. Honestly determining how much you can lose will prepare you to act intelligently if the investment does not work out as planned. If you are not prepared for what can go wrong, then any negative news will be far more upsetting than it needs to be.

**8. Resolve past losses**
We have all experienced personal loss (death of a loved one, career setback, personal disappointment etc.) and the baggage we carry from them effects how we experience investment losses. Our psyches do not do a great job of separating financial losses from personal losses. By resolving past personal losses you will have a much easier time dealing with investment losses. Another good idea is to make a list of the anniversary dates of your personal losses and always avoid making important decisions on those dates.

**9. Develop clear investment goals and stay focused on them**
By really understanding why you are investing (retirement, a new house, college education etc.) and staying focused on those reasons will help you ignore day to day bumps in the road. E.g. If you are investing for retirement in 30 years, a 15% temporary drop in your investment should is not only be inconsequential but is also expected as part of the investing process. Without a goal to focus your attention on, you have nowhere to focus your attention but on the current temporary drop in value.

**10. Decide in advance what you will do if things go badly**
Set a price where you will sell because you cannot handle a further loss. Develop well thought out reasons for your sell price, write them down and keep them in a place where you can consult them when necessary. If the investment hits that price then sell it. If the investment does not hit that price hang onto it.