What is your appetite for risk?

Some people may find sky diving thrilling; others would rather keep their feet on the ground. The difference between these individuals is quite likely their attitude towards risk – how willing they are to jump out of an airplane for an unforgettable thrill.

But what if there were two sky divers on the airplane and only one had a parachute? They may both have the same attitude about risk, but now the difference between the two is their capacity to take a risk. Obviously, the person with the ability to deploy a parachute to break his fall has far more capacity to take the risk of jumping than the other.

It is much the same when it comes to investing. Your attitude with respect to the potential of losing money and your ability to absorb a financial loss can be very different.

One of the key factors to successful investing is to know your tolerance for risk. Some investors are willing to accept lower levels of growth potential to minimize risk, while others are willing to take a much higher level of risk in return for more growth potential.

The amount of risk you are willing to take may differ at different points in your life. It is not surprising that investors who are about to retire or have recently retired have much lower risk appetite than young Canadians just entering the workforce. In fact, research[1] has found that retirees are five times more risk-averse than the average person. That shouldn't be a surprise: after all, someone in their 20s or 30s still has plenty of time to accumulate savings, while a retiree must find a way to fund their lifestyle with the money they have already saved.

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Other factors that may affect your risk tolerance:

Income

The higher your income, the higher your risk tolerance is likely to be.

Financial responsibilities

The greater your financial responsibilities (think mortgage, children, other dependents, car payments) the lower your risk tolerance is likely to be.

Funded ratio or financial cushion

The greater your financial cushion – or the difference between your income and your expenses – the higher your risk tolerance is likely to be. When measuring the ability of your accumulated assets to fund your retirement liabilities, known as your funded ratio, those with a funded ratio well above 100% are likely to have a greater risk tolerance.

Distance from finish line

The closer you are to a goal – for example, saving for a university education, buying a house, or preparing for retirement – the lower your risk tolerance is likely to be since you are getting ready to use the funds accumulated. If you still have a lot of time before you need the money, you are more likely to take investment risks that could lead to a potentially higher reward.

Then, there are such issues as previous experience with investments, familiarity with the markets and knowledge about investing, as well as your own character. Your ability to accept risk may depend on whether you make emotional decisions or are a wait-and-see type of person.

To determine how willing you are to take on risk you should consider:

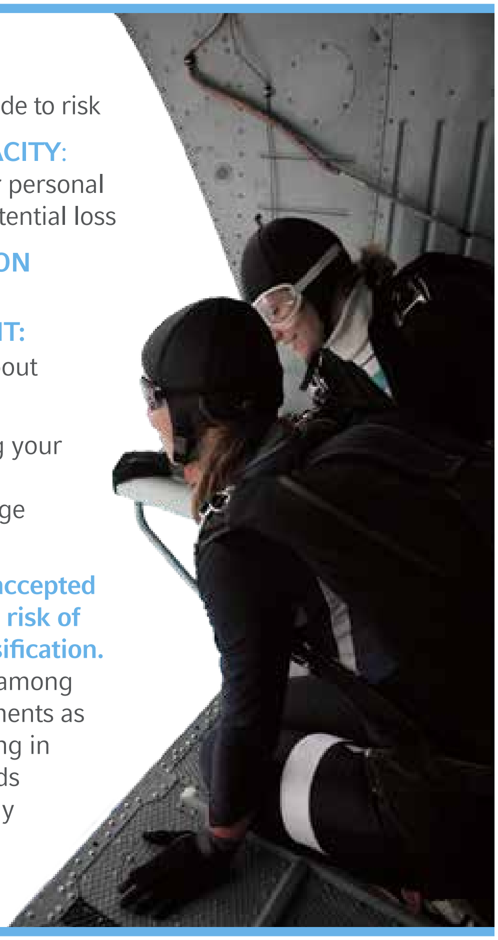
YOUR RISK PSYCHOLOGY: your inherent attitude to risk

YOUR RISK CAPACITY: the impact on your personal finances from a potential loss

YOUR PERCEPTION OF THE RISK OF THE INVESTMENT: your gut feeling about how risky it is

As well as knowing your risk tolerance, it is important to manage your risk:

The most widely accepted way to reduce the risk of investing is diversification. Spreading money among a variety of investments as opposed to investing in only stocks or bonds for example. Simply stated, not putting all your eggs in one basket.



Because diversification can lower risk, you can select asset classes (such as small-cap stocks, high-yield bonds, emerging markets debt or international equities) that on their own could be volatile but as part of a broader mix within a portfolio give you a higher potential for returns.

For more information on how Russell Investments can help you pursue your investment goals, please ask your advisor or contact us at 1-888-509-1792 or visit us at russellinvestments.com/ca

[1]Interview with Eric Johnson of Columbia University in *Behavioral Finance and the Post-Retirement Crisis*, prepared by Shlomo Benartiz of UCLA for Allianz of America, 2010. Submitted to U.S Department of the Treasury/Department of Labor.

Important Information

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

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