

Risk: How Much Is Too Much?

Would you walk down a dark, deserted city street with a million dollars in your pocket? If you would, you probably are a risk taker by nature.

But just because you're willing to take on a lot of risk doesn't mean that you should. And that's particularly true when you're investing for your future. Consider some of the ways that your relationship with risk influences investment choices.

Personality and risk. Conservative investors who aren't comfortable taking risk typically want to preserve their principal – even if it means that their investments might not keep up with inflation. At the other end of the spectrum are aggressive investors who are willing to accept higher risk in exchange for potentially higher returns.

Your feelings about risk can help you choose investments for your portfolio that fit your risk profile. But that's only one part of the risk equation. It's just as important to consider how much risk you're able to tolerate financially.

Finances and risk. Your financial capacity for risk may be very different from your actual feelings about risk. The amount of money you have accumulated and your investing time horizon are two factors that affect how much risk you should take with your investments. A person with a \$2 million portfolio can afford to risk \$100,000 on an investment more than someone with a \$200,000 portfolio can. And someone who won't need the money for a very long time can generally accept more risk than someone with a shorter time horizon.

Another factor is liquidity. Investors who may need quick access to their money won't want to have it tied up in investments that can't be easily turned into cash. So, even though they might be willing to accept more risk, investors may have to forgo investments with the potential for higher returns in favor of those with low risk for liquidity purposes.

Goals matter. When all is said and done, your goal should be to take enough risk with your investments to reach your financial objectives without taking on more risk than your finances can tolerate.



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How much is too much? Let the professionals at Bay Trust Company review your tolerance for risk against your need for return.



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