



## What Type of Investor Are You?

Investing your hard earned dollars is a very personal thing. After you have saved enough money in your emergency savings account, you will begin to diversify your savings through other types of investments. A plethora of investment options are available to you. You can invest directly in stocks and bonds. You can keep your money in cash. You can invest in mutual funds, IRAs, and annuities. Which one will be best for you? Start by evaluating your feelings about risk and reward.

### Risk and Reward

Which investments you choose will be based on a number of factors including your goals, your tolerance to risk, the risk of the investment, and what life stage you are in.


How you feel about risking your money will drive many of your investment decisions. The risk-comfort scale extends from very conservative (you don't want to risk losing a penny regardless of how little your money earns) to very aggressive (you're willing to risk much of your money for the possibility that it will grow tremendously). Most investors' tolerance for risk falls somewhere in between.

Risk is not a technical issue. It's an emotional one. There is no formula to use to calculate your risk tolerance. You have to take a realistic look at yourself. If you wake up one morning to find your portfolio down 10%, will this be a gut-wrenching experience? Will you lose sleep the next night as a result? If so, you might need a different mix of investments with less in riskier investments and more in stable ones. On the other hand, if an overnight drop of 10% in your investment portfolio is tolerable because it's in your range of expectations, you probably have the right mix.

What type of investor are you? To plan your financial future, think of your investment plan as building a sturdy pyramid. This pyramid reflects the risk/reward characteristics of various types of investments. In general, an investment that is higher on the pyramid provides the potential for greater returns and also involves a higher degree of risk. Your rewards may be impressive, but your losses could be equally spectacular.

On the other hand, investments that are closer to the pyramid's base may provide lower returns, but they also entail lower levels of risk. Although you may not make a killing with guaranteed investments like annuities and certificates of deposit (CDs), the risk of losing money is also much lower.

The following chart shows risk/reward levels as they relate to personal goals and types of investments that might be considered at various levels.

If You Are...	Higher Risk Higher Return Potential	Consider...
Planning far ahead for financial goals. Willing to accept greater risk for potentially higher rewards.		International Stock Funds Specialized Stock Funds
Planning ahead for financial milestones and goals.		Growth Stock Funds Value Stock Funds
Getting closer to goals, but still need some accumulation.		Bond/Income Funds Balanced/Hybrid Funds
Being careful about conserving assets and your goals are near term.		Savings U.S. Treasuries Money Market Funds
	Lower Risk Lower Return Potential	