



**TGA Capital Management**  
A Registered Investment Advisory  
Michael Green, RIA  
Principal  
25 Braintree Hill Office Park  
Suite 200  
Braintree, MA 02184  
508-224-9646  
[mgreen@tgacapitalmanagement.com](mailto:mgreen@tgacapitalmanagement.com)  
[www.tgacapitalmanagement.com](http://www.tgacapitalmanagement.com)

# How can I gauge my risk tolerance?





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Risk tolerance is an investment term that refers to your ability to endure market volatility. All investments come with some level of risk, and if you're planning to invest your money, it's important to be aware of how much volatility you can endure. Your tolerance for risk affects your choice of investments and the overall makeup of your portfolio.

If you are attempting to gauge your own tolerance for risk, consider the following factors:

- Personality: Are you able to sleep at night knowing that you've put a portion of your hard-earned dollars at risk in a particular investment? Remember, it might be easy to tolerate a high-risk investment while it is generating double-digit returns, but consider whether you'll feel the same way if the market takes a downward turn with your investment leading the way. It's best to invest at a level of volatility that you are comfortable with.
- Time horizon: The sooner you may need to use your investment dollars, the lower your risk tolerance. For example, for money you plan to use to make a down payment on a house in 2 years, your risk tolerance is lower than if you're investing for retirement in 20 years. If you can keep your money invested for a long period of time, you may be able to ride out any downturns in the market (though time alone is no guarantee of higher returns).
- Capacity for risk: How much can you afford to lose? Your capacity for risk depends on your financial position (i.e., your assets, income, and expenses). In general, the more resources or assets you have to fall back on, the higher your risk tolerance.

Many risk tolerance tests are widely available on the Internet and in books about investing. Most require that you answer a series of questions, and generate a score based on your answers. The score translates into a measure of your risk tolerance and may be matched with the types of investments that the author deems appropriate for someone with your risk profile. Although these tests may be helpful as a reference, your financial plan should be tailored to your unique circumstances. Don't hesitate to get expert help if you need it.

**Note:** All investing involves risk, including the potential loss of principal, and there is no guarantee that any investment strategy will be successful.

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