MANAGING YOUR FINANCIAL RISK

By Mark Seruya

As individuals, we all have different preferences when it comes to risk. Extreme sport enthusiasts, for instance, try inventive new twists on traditional activities, such as kitesurfing, BASE jumping (an acronym for building, antenna, span, earth), and snowboarding on rough terrain for adrenaline-pumping thrills. These pursuits all are inherently dangerous because of the uncontrollable variables at play. For many of us, however, the risk associated with these sports carries less appeal.

As investors, our preferences for risk often can dictate our investment strategy. When it comes to our finances, we typically look to our long-term goals rather than short-term thrills. Few of us are willing to jeopardize our savings, our emergency reserves, our kids' college money, or our retirement funds on risky ventures.

The question of risk management is one of the most important considerations for our portfolios. As investors, we seek to maximize returns and minimize risk, ensuring that our investment losses never exceed acceptable boundaries and account for variables as much as possible.

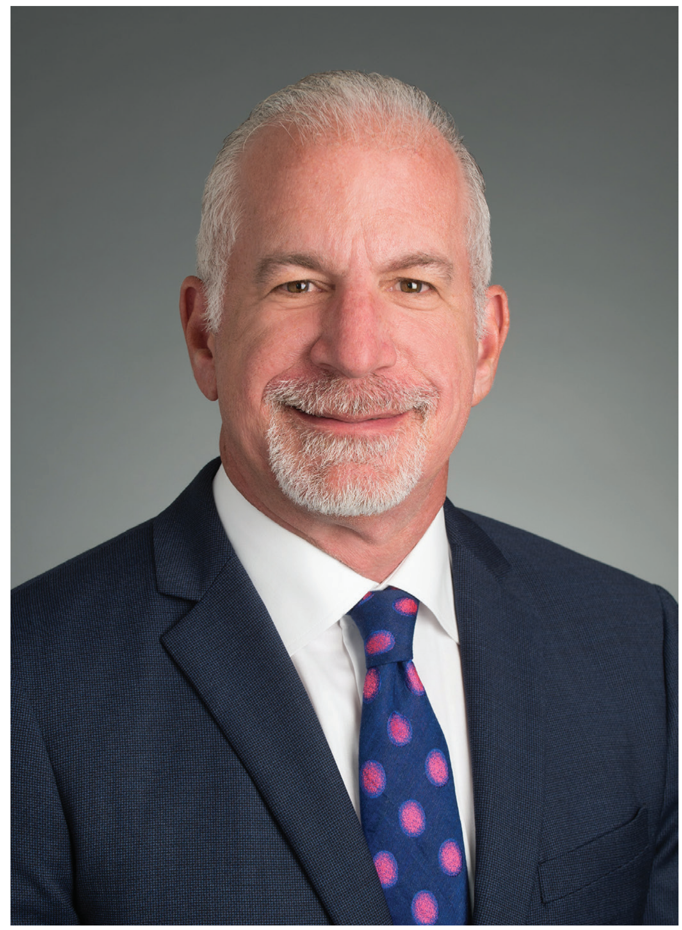
As a first step, we must decide how tolerant to volatility we are, a calculation that depends on our age, our income, our portfolio, and our anticipated future needs. Are we conservative, balanced, or aggressive? Typically, a young person is likely to be more aggressive, and someone nearing retirement more conservative. This calculation should be a logical, not emotional, one; it should be based on our life circumstances, not necessarily our temperament. Just because we have tried skydiving doesn't mean we should be an aggressive investor.

Once that equation emerges, here are some additional considerations:

Diversification: A portfolio constructed of different kinds of investments is key to long-term returns. For example, one might consider bonds and growth stocks if retirement is a ways off, and solid dividend stocks and fixed income if the proverbial rocking chair looms in the near future. International investments in strong companies, poised for growth, particularly in countries with vibrant economies, and assets easily and quickly converted to cash to take advantage of new investment opportunities that may arise in the short term should also be considered as components of a balanced portfolio.

Position sizing: Determining how much of a stock to own and adjusting it to reflect risk is essential and can best be calculated by a professional advisor who will take your risk tolerance and a host of market factors into account.

Valuation: The process of estimating the worth of an asset or company in order to know how and how much to invest in it. Some parameters for consideration include the company's management, capital structure, liabilities, and market value.



Exit strategies: Two types of exit strategies exist – making a gain, or "take-profit," and taking a loss, "stop-loss." Both require presetting a point at which you will withdraw from the investment. This procedure enhances your chances of growing your portfolio as you eliminate emotion and reduce risk.

Our lives are full of risks. We purchase auto insurance to protect us from the dangers of driving, and homeowner's insurance to protect our homes. When we participate in sports – hopefully – we wear helmets and pads and take all possible precautions to stay safe. And with our hard-earned money, we take the advice of experts: we establish a balanced and prudent portfolio that safeguards as it grows our wealth.

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