



Wealth Management



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Investor profiles

Understanding your personal tolerance and capacity for investment risk

When comparing long-term historical returns of investments, stocks typically outperform bonds, bonds typically outperform cash, and the return on cash may barely exceed inflation. However, stocks, bonds and cash each present different risks. While you may hope for your investments to grow over time, the value of most investments moves up and down. Some investments fluctuate a little bit, and some fluctuate a lot. This price movement is called **volatility**.

Risk tolerance is your ability to endure volatility. It's how the changes in the value of your investments make you feel. **Risk capacity** is how much risk you can afford to take, based on your financial situation, your age and

how long you plan to keep your money invested. Both risk tolerance and risk capacity help you decide how much investment risk to take.

Risk assessments such as quizzes and interviews are often used to determine a person's risk profile. Establishing your risk profile, also referred to as an **investor profile**, helps narrow down the range of investments or asset allocation that's appropriate for you. Think of it like a tool that can facilitate conversations about your needs and preferences, and help you set realistic expectations about investment returns and the volatility of the underlying securities.



Here's an overview of five common investor profiles:

1. **Very conservative:** Focuses on minimizing volatility. This profile reflects a *low* tolerance or capacity for risk. Mostly invests in cash and fixed-income securities.
2. **Conservative:** Focuses on generating consistent returns. This profile reflects *some* tolerance or capacity for risk. Mostly invests in fixed-income securities, with some equities.
3. **Balanced:** Focuses on a combination of growth and income. This profile reflects a *moderate* tolerance or capacity for risk. Invests in a combination of fixed-income securities and equities.
4. **Growth:** Focuses on higher return potential. This profile reflects an *above-average* tolerance and capacity for risk. Mostly invests in equities.
5. **Aggressive growth:** Focuses on maximizing potential returns. This profile reflects a *high* tolerance and capacity for risk. Invests in equities and alternative asset classes.

Whether you're comfortable with a lot of risk or a little, or you're somewhere in between, knowing your tolerance and capacity for risk will help you make informed decisions about your investments.

To find out more about investing or the RBC Wealth Management Financial Literacy program, please contact us today.

