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Does Your Financial Advisor Understand Your Tolerance For Risk?

Investing your hard-earned money always involves an element of risk. Yet we all have varying definitions of risk.

Some people perceive investing in gold, for example, as risky, while others, think it offers conservative balance. The same is true for investing overseas.

Yet risk assessment is critical when selecting, and communicating with, your financial advisor, including the investments selected to help achieve financial goals.

The best advisors seek first to listen and understand what affects your perception of risk. Many factors affect this outcome – a client’s personality, investment knowledge, and history or life experience.

If you are an analytical person, for example, you may prefer to receive as much data as possible before arriving at an investment decision. Charts, graphs, and research from your advisor would make your decision more clear.

You may have emotional attachments to a stock or an investment. If an uncle gave you 1,000 shares of a stock when you were 10 years old, or you worked for an employer you loved for 40 years, your advisor needs to be able to understand why you may be reluctant to diversify that holding.

A stock that boomed back in the 1970s or 80s may not be a good long-term investment today, especially if that stock has lost market share or makes up a good percentage of your portfolio. Your advisor can help you address any emotional connection and bring together your financial objectives while respecting your family legacy.

If you are a more aggressive, driver-type of person you are looking for an immediate “what’s the bottom line” return.

A sound financial advisor resists generalizing about certain groups of individuals and their investment preferences; for example, assuming all people who lived through the Great Depression will have an aversion to the stock market, or that all Millennials are risk-takers.

The reality is that each of us has our own individual life experiences, personalities and knowledge of financial options. In order for us to succeed and reach our financial goals, it’s important to have an advisor who listens, and takes the time to guide you to investments consistent with your knowledge, experience and goals.

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Steve Kehoe is the founder and partner of Kehoe Financial Advisors of Cincinnati, a 32-year-old financial advising and services practice. Kehoe assists clients in developing and implementing financial strategies to help meet retirement, estate and business planning objectives, business continuation and succession planning. For more information, go to www.kehoe-financial.com or call (513) 481-8555.