

HOW TO APPROACH INVESTMENT RISK AS AN INVESTOR

Understanding risk tolerance, risk capacity and how they shape smarter investment decisions



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At DG Financial Services, when we speak with our clients, we always explain that every investment carries some level of risk. Whether you invest in shares, bonds, funds, property or other assets, there is always a chance that returns may differ from what you expect. For some investors, risk means seeing the value of their portfolio fall during periods of market volatility. For others, it means holding too much cash and watching inflation erode the real value of their savings over time.

That's why obtaining professional advice from our experienced team is essential. Investment risk is not something to avoid entirely. It is something to understand, manage and align with your financial goals. Before choosing an investment strategy, it helps to consider how much risk you are comfortable taking, how much you can afford to take, and how long your money is likely to remain invested. When these factors are balanced, you are more likely to stay committed to your plan, even when markets feel uncertain.

EVALUATING YOUR PERSONAL COMFORT WITH MARKET VOLATILITY

Your risk tolerance reflects how comfortable you are with uncertainty,

short-term losses and fluctuations in the value of your investments. It is shaped by your personality, your previous experience with money, your investment knowledge and your response to market rises or falls.

Some investors are comfortable with short-term volatility because they are focused on long-term growth. They may be willing to invest in higher-return assets, such as equities, even if their portfolio value may fall at times. Others may feel more cautious and prefer a steadier investment approach, even if this means accepting lower potential returns over the long term.

Understanding your risk tolerance is important because the right portfolio is not just about numbers. It also needs to be something you can live with. If

your investments leave you anxious whenever markets move, you may be more likely to make emotional decisions, sell at the wrong time, or stray from your long-term plan.

UNDERSTANDING HOW MUCH INVESTMENT RISK YOU CAN AFFORD

Risk capacity is different from risk tolerance. While tolerance is about how you feel, capacity is about your financial position. It assesses how much risk you can realistically afford to take, based on your income, savings, age, commitments, time horizon and financial goals.

For example, someone investing for retirement in 25 years may have more time to recover from short-term



market falls. This can allow a higher level of investment risk, depending on their wider circumstances. However, someone planning to access their money in the next few years may need a more cautious approach, as a market downturn shortly before withdrawal could have a much greater impact.

Your risk capacity also depends on the purpose of the funds. Funds set aside for emergency savings, short-term spending or essential commitments usually need to be treated differently from those for long-term investments. This is why investment planning should consider both your goals and the timeframe for each.

STRIKING THE RIGHT BALANCE FOR YOUR FINANCIAL FUTURE

A strong investment strategy should balance risk tolerance, risk capacity and long-term objectives. If you take too much risk, you may incur losses that could affect your future plans. If you take too little risk, your investments

may not grow enough to keep pace with inflation or support the lifestyle you want later in life.

This is where asset allocation, diversification and regular portfolio reviews become important. Spreading your money across different types of investments can help manage risk, while keeping your portfolio aligned with your goals can help ensure your strategy remains suitable as your circumstances change.

Finding the right approach to investment risk requires honesty, discipline and a clear understanding of your objectives. A professional financial adviser can help you assess your risk

profile, review your investment options and build a portfolio that reflects both your financial goals and your tolerance for market uncertainty. ■

THIS ARTICLE IS FOR INFORMATIONAL PURPOSES ONLY AND DOES NOT CONSTITUTE TAX, LEGAL OR FINANCIAL ADVICE. THE VALUE OF YOUR INVESTMENTS AND ANY INCOME FROM THEM CAN GO UP OR DOWN. YOU MAY GET BACK LESS THAN YOU INVEST. PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

Time to review your investment risk?

Every investment decision should reflect your goals, time horizon and attitude to risk. Our team can help you understand your risk tolerance, assess your capacity for loss and build an investment strategy that feels suitable for your future. Contact DG Financial Services to start planning with greater confidence.



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If you wish to register a complaint, please write to russell.golledge@dgfs.biz or telephone **01379 454508**

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