



Quick Q & A #2

Q: What makes good risk good?



A: Good risk pays for itself with opportunity.

Everyone talks about minimizing risk, but without risk investing looks a lot like a passbook savings account. Risk – the chance that returns will vary, both positively and negatively – is the price of admission for the opportunity to earn higher returns. For instance, small stocks (the dark blue dot) have earned higher returns than other asset classes, but are the most volatile as well. Investors who can tolerate the risk may be rewarded with higher returns.



Not all risk is desirable, however. Some risks foster volatility without increasing expected return. For instance, trying to time the market – jumping in and out based on charts, trends, or hunches – introduces the risk of missing big up days, but doesn't systematically increase expected return.

We suggest investors embrace the risks that offer opportunity, not just volatility.

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