WHAT IS RISK TOLERANCE?

- A **psychological aspec**t of investing that relates to a person's level of comfort in taking financial risk.
- It helps determine an investor's **willingness** to lose some or all of an investment in exchange for greater potential returns.
- Investors generally differ in the amount of risk they feel comfortable taking.
- While some people embrace risk, others may tend to avoid it at all cost.

THE RISK TOLERANCE QUESTIONNAIRE

Developed in 1999 by Professors **John Grable** and **Ruth Lytton** to assess financial risk tolerance.

Published in Financial Services Review *(FSR)* and referenced in over a hundred research publications.

Follow-up study in 2015 analyzed **160,279 investor responses** and confirmed the reliability of the RTQ.

13
Multi-choice questions

.77
Cronbach's alpha score

19
Years in use

200,000+
Completed questionnaires

THE RESULTS

The RTQ results are scaled from 0 to 100, with 0 being the least comfortable taking financial risk and 100 the most comfortable.

The question responses should be used by an advisor to stimulate further discussion around risk with clients.

Advisors should use their best professional judgment in constructing an appropriate asset allocation based on the risk tolerance results, alongside other vital factors such as investment objective, risk need, capacity for loss and individual circumstances.

SOURCES

Initial Study (1999)
Grable, J. E., & Lytton, R. H. (1999). Financial risk tolerance revisited: The development of a risk assessment instrument. Financial Services Review, 8, 163–181.

Follow-up Study (2015)
Kuzniak, S., Rabbani, A., Heo, W., Ruiz-Menjivar, J., & Grable, J. E. (2015). The Grable and Lytton risk-tolerance scale: a 15-year retrospective. Financial Services Review, 24(2), 177-192.

Cronbach's alpha score
https://stats.idre.ucla.edu/spss/faq/what-does-cronbachs-alpha-mean/

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