



The Risks We Take



Who we are and how we behave can have a big impact on the financial and investing risks we take.

Here are a few details from the most recent TD Wealth Behavioural Finance Industry Report, 2021 - A Behavioural Perspective on Risk (the “study”). Consider these findings the next time you talk to your advisor.

What is a goal-based plan, and do I really need one?

A goal-based plan helps you define and quantify your financial goals and identifies the right investment plan to help you reach them. Your plan is a living document that can be updated as your life evolves and your needs change. Business leaders don’t start a new project without a plan and neither do Olympic athletes if they want to reach the podium. So why do more than half of affluent Canadians not have a plan?* Good question. Perhaps it is because those who don’t have a plan, are unaware of the value it can bring.

During times of financial stress or market volatility, a solid wealth plan created with the help of your advisor, can help you stay focused on your goals. *In the study, those who had a plan with their advisor were 2x less likely to be tempted to stray from their investment strategy than those who don’t have a plan at all.** That’s massively important given our natural human tendency to become anxious and reactive during times of financial uncertainty. Having a well thought through goal-based plan and an advisor who helps you stick with it, can help you achieve your retirement dream. Consider talking to your advisor about creating one for you if you haven’t already.



What your career choice may say about you

Do you consider your income volatile? What about the industry you work in – would you consider that to be uncertain? If you answer yes to either of these questions, you may be *twice as likely to select a portfolio for yourself that is also volatile* vs. those who do not have a volatile income*, and this may come with a downside to your financial future. While risky investments and portfolios have potential upsides, they may also hold future downsides.

Those in the study who considered their industry or income volatile, were also *4x less likely to feel satisfied with their readiness for retirement*.*

If this feels like a double hit to your ability to reach your goals, it doesn't have to be. Whether you have a volatile income, work in a volatile industry, or neither, this is where your advisor can add value. Many good advisors help clients identify behaviours that might hurt their chances of achieving their long-term goals, such as selecting a volatile portfolio when their risk appetite isn't aligned, selling an investment when the market is down or paying too much when the market is up. An advisor may help you feel more emotionally comfortable and more confident with your retirement readiness by having a constructive conversation with you about creating a goal-based plan. Your advisor can build an investment portfolio tailored to your specific goals, risk capacity, and risk tolerance that will help you navigate the choppy waters of market cycles over the long term.

How confident are you about investing? It may shape your attitude about risk

The study found that those who claimed to be a knowledgeable and confident investor were *3 1/2x more likely to select a volatile portfolio* than those who did not have high self-assessed investment knowledge or confidence.* Choosing a more volatile portfolio is a trade-off between risk and reward, and an overconfident investor may not have the personality or capacity to manage any potential losses. Remember that believing oneself to be knowledgeable and confident regarding investing does not necessarily make one a good investor. The news isn't all bad – there are many ways your advisor can help you mitigate your riskier tendencies.

Overconfidence may lead to the belief that one is able to navigate or avoid negative situations, and this may lead to errors in judgment. Having a candid relationship with your advisor is also vital. They may be able to point out when you may think you can take on more risk than you actually can. Your advisor can help steer you to make the right decisions for your risk tolerance and capacity. We've said it before, and we'll say it again – building a plan with the help of your advisor can be a fundamental first step towards achieving your future financial success.

Want to learn more about behavioural risk and financial decision making? Go to the [TD Wealth Behavioural Finance website](#) for the full report. While you're on the website uncover your Wealth Personality™ profile by using our new mini assessment.



*TD Wealth Behavioural Finance Industry Report, 2021. A Behavioural Perspective on Risk

Online survey of Canadians in English & French. n=2,088. For a breakdown of respondents, refer to the full report on the [TD Wealth Behavioural Finance website](#).

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