**On Loan**

If you could do anything you wanted this weekend, what would you do? Would you race a fast car, ride your skateboard, go bicycling, or read a good book? If you’re a risk-taker, you might try something new, such as singing at an “open mic” night. If you’re *not* a risk-taker, you might stick with something more familiar, such as going to see the next film in your favorite series. Willingness to take physical or social risks is determined by your **temperament** (nature) and your attitude.

People who face **risk** (the possibility of loss) with a positive attitude are described as **risk-tolerant** or risk-takers. Risk-takers know that trying something doesn’t guarantee success. But, they’re willing to “chance it” for the potential **return** (reward or benefit). For a racecar driver, the return is likely the thrill of the experience or of victory.

For an investor, the return is what the investment could earn—the additional money s/he could receive. People who face risk with a negative attitude are called **risk-averse**. For them, the potential return is often not worth the uncertainty or the possibility of loss.

Investors know they’re taking a risk when they invest. They could lose money. They might not get back more than they’ve put in, or they might lose everything they’ve invested. So, why would anyone want to invest? For the earnings, pure and simple. Accepting a level of risk is just part of investing.

Test your risk-taking attitude by taking CNN’s quiz at <http://edition.cnn.com/2008/BUSINESS/09/26/risk.quiz/index.html?cc=us&selLanguage=en>.

**Too much to handle?**

If you’re an investor and want the potential of a high return, you accept a high risk. If you can’t handle a high risk, you select a moderate- or low-risk investment instead—with the understanding that taking a lower risk brings you the potential of a lower return, in general.

Three things tend to determine how much risk you can handle:

1) What you want to accomplish

2) How much time you have to accomplish it

3) Your personality

Let’s say your financial goals are to buy a house and to save for your retirement. If you’re in your teens or twenties, preparing for retirement is a long-term goal, while saving for a down payment on a house is something you could do in just a few years. This means that for your retirement investment, you might take a little more risk—because you don’t need the money right away. For your down payment, however, you wouldn’t want to risk what little you have so far—because you’re going to need the money in the near future.

Your goals and timetable are not the only determining factors of how much risk you can tolerate, however. If you have a personality that is uncomfortable with risk, you might not care how much time is involved. You might be willing to sacrifice the reward you *could* gain in the future for the certainty you have *right now.*

Investors who try to avoid risk are mainly interested in protecting their initial investments—and they should be! To “grow” your money, you need to make sure that what you’ve invested will remain safe. Before you choose a specific investment, consider how *likely* it is that you’ll lose what you initially put in. When there’s a good chance you may lose what you’ve invested, the risk is “high.” When there’s a small chance (or no chance) that you’ll lose what you’ve invested, the risk is “low.” Higher risks usually bring higher returns.

For a more in-depth look at investment risk and return, read Ted Schwartz’s column “What Investors Must Know about Risk and Return” at <http://abcnews.go.com/Business/investors-risk-return/story?id=20357473>.

**From my point of view…**

One way to put your investment risk in perspective is to look at the risk pyramid, a graphic way of comparing investments. With high-, moderate-, and low-risk categories, the pyramid helps you to see which investments are more or less risky than others. Near the peak are the most risky investments, while at the base are the most reliable returns.

If an investment you’re considering is located near the middle of the pyramid—but you think you can handle more risk—you might select an investment closer to the peak. If you feel that you can’t afford any large losses right now, you might choose an investment closer to the base. When you visualize how likely it is that you’ll receive a particular return, you can see which selection is the best choice to move you toward your goal.



Skeptics may think that investing is similar to playing the lottery. Yes, investing is risky, but wise investors make sure their chances of succeeding are good. With the Powerball lottery, the chances aren’t so good—about one in 175 million. Buying two tickets increases the odds to only *two* in 175 million. Still not very promising!

**Lending investments**

Right now, you could select from almost any number of investment opportunities to make your money work for you. These opportunities are called **securities**—the legal lending or owning agreements between individuals, businesses, or governments. Since there are many different types of securities, you might find it helpful to separate them into “lending” and “owning” categories. These categories are sometimes referred to as “debt” and “equity.”

Investors who can’t handle much risk put their money into lending investments. With a **lending investment,** you allow someone to borrow your money for a period of time—for a price. The extra money you receive provides the motivation for lending. Examples of lending investments are savings accounts, money market accounts, certificates of deposit, and bonds.

*Savings accounts.* A **savings account** is an investment in which you lend money to a bank for the benefit of being able to access it at pretty much any time (you can make up to six withdrawals a month, per federal law). Of course, you can access your money with complete freedom if it’s hidden in your sock drawer. The difference is that you get paid to put your money in a savings account (and you don’t have to worry about your little brother stealing it!)—and that’s what motivates people to do it.

Another benefit of a savings account is that you can leave your money in it for an indefinite period of time. This means that you don’t have to move your savings from one place of investment to another. You can keep a savings account open for your entire life. In addition, savings accounts are insured by the **FDIC (Federal Deposit Insurance Corporation)** for up to $250,000. No investor has lost a penny in an account insured by the FDIC since its creation in 1933.

The downside to a savings account is twofold. First, you receive a low rate of return. Right now, savings accounts are returning an average of 0.07 percent interest per year (for updated information, check [http://www.nerdwallet.com/rates/savings-account](http://www.nerdwallet.com/rates/savings-account%20)). This means that if you put $1,000 in your savings account, your investment will earn you less than $1 in interest over an entire year. Second, this low return doesn’t even keep up with inflation—which is a double-whammy. Your savings grows at a slower rate than the cost of goods and services. In effect, your money has less buying power.

You can learn more about the pros and cons of putting your money in a savings account by visiting <http://finance.zacks.com/advantages-disadvantages-savings-checking-accounts-3843.html> and reading Calia Roberts’ article “Advantages and Disadvantages of Checking and Savings Accounts.”

*Money market accounts*. Another bank account that earns interest is a **money market account**. A money market account is very similar to a savings account. It’s insured by the FDIC, and you can leave your money in it as long as you’d like. However, a money market account may have some additional restrictions. You may be allowed fewer than six withdrawals per month (perhaps only three), and your account may also have a minimum-balance requirement.

So, what is the benefit of a money market account over a savings account? Unlike savings accounts, you can write checks from some money market accounts (again, usually a limited number each month). And, traditionally, you should get a better interest rate. However, current money market account rates are about the same as savings account rates. You can look up rates in your area by visiting <http://www.nerdwallet.com/rates/Money-Market-Rates>.

Learn more about the differences (or lack thereof!) between savings accounts and money market accounts by reading Trent Last’s article “Personal Finance 101: Money Market Accounts Versus Normal Savings Accounts” at <http://www.thesimpledollar.com/personal-finance-101-money-market-accounts-versus-normal-savings-accounts/>.

Online banks often offer more attractive interest rates for savings accounts and money market accounts than traditional, “brick-and-mortar” banks do. If you conduct a Google search for “online savings account,” you’ll be able to check out some of the most up-to-date rates.

*Certificates of deposit.* A **certificate of deposit** (CD) is a lending investment in which you lend money to a bank at a set interest rate for a particular period of time. Typical time frames can be as short as 28 days or as long as 10 years. With CDs, you are guaranteed a certain rate of return, but you can’t access your money before the end of the time period without paying a penalty. By giving up the right to use your money for a period of time, you can earn a higher return than with a savings or money market account. Good interest rates for five-year CDs are currently around 0.8 percent. To get this interest rate, though, you usually have to invest a minimum amount of money—such as $500 or $1,000.

Bankrate.com offers further insight on CD investing in a post entitled “The Pros and Cons of CD Investing.” You can read it here: <http://www.bankrate.com/finance/cd/the-pros-and-cons-of-cd-investing.aspx>.

*Bonds.* While a CD is offered by a bank, a **bond** is offered by a government, municipality, or corporation. A bond is similar to a CD in that it’s a lending investment at a set interest rate for a particular period of time—such as a year, 10 years, or longer. With a bond, however, you don’t pay a penalty if you withdraw the invested amount before the end of the time frame. You just lose the amount you would have received if you’d left it alone.

In general, bonds are considered to be *guaranteed* money. They are very low risk. The trade-off is that you have to be willing to leave your money with the borrower for the entire time period. In some cases, that’s 30 years! But, the reliability of bonds appeals to many investors who can handle only small amounts of risk.

A newer trend in bond investing allows investors to positively influence society while still getting a return on their investments. Learn more about social impact bonds by watching this video from Goldman Sachs: <http://www.goldmansachs.com/our-thinking/trends-in-our-business/social-impact-bonds.html>.

**Summary**

People who have a positive attitude toward risk are risk-tolerant. Those with a negative attitude toward risk are risk-averse. Risk is an important concept in investing. How much risk you can handle as an investor depends on your goals, your timetable, and your personality. Lending investments are generally low risk. These include savings accounts, money market accounts, certificates of deposit (CDs), and bonds.