

Psychometrics and Proper Risk Profiling

Finding a financial advisor who can get risk right is probably one of the most challenging tasks facing investors. How many of you know somebody who has said, "I can lose my own money," and subsequently fired their broker after the last two major downturns (2000-02 and 2008-09)? For those of you whose financial advisor has gotten it right, you are fortunate to have a productive long-term relationship. For those whose "glorified salesperson" have gotten it wrong, their portfolios could amount to a "countdown to failure".

Today's modern wealth management firms have embraced advances in research to provide a robust solution, underwritten with statistical integrity.

Risk tolerance is psychological — it's how you feel about risk. Psychometrics — a blend of psychology and statistics — is the scientific discipline for the construction and validation of psychological measurement. All questions must be independently validated, easy to understand, and be directly relevant to risk tolerance.¹

A sophisticated scoring algorithm would calculate risk tolerance accurately. The process has to be reliable and consistent. The results should be on-target and tightly grouped.

15 minutes invested in taking the survey can affect the rest of your life, especially if your risk tolerance does not align with your nest egg.

Because a good questionnaire is jargon-free, questions don't require explanation and can be answered remotely — online or paper-based — at your convenience.

As a result, you will understand better your values, preferences, and sensitivities. Furthermore, you will quantify how risk tolerant you are overall, how you differ from others in your peer group, and for couples — how you differ from one another.

*If you would like to try our complimentary risk tolerance questionnaire, please visit us at **hampton-wealthmanagement.com**. We would be happy to discuss how well your true risk tolerance matches your current asset allocation.*

1. For more details, see www.finametrika.com



Hampton
WEALTH MANAGEMENT

Michael Lynn, MBA, AIF, AAMS, CMFC
Founder & President
412.600.2725

One Pine Corporate Center, Suite 200
6021 Wallace Road Extension
Wexford, Pennsylvania 15090
ml@hampton-wealthmanagement.com
hampton-wealthmanagement.com

Registered Representative, Securities offered through Cambridge Investment Research, Inc., a Broker/Dealer, Member FINRA/SIPC. Investment Advisor Representative. Cambridge Investment Research Advisors, Inc., a Registered Investment Advisor. Cambridge Investment Research Advisors, Inc. and Hampton Wealth Management, LLC are not affiliated.