



## NEWS

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Geoff Davey

## **FinaMetrica Confirms Stability of Individual Risk Tolerance**

### ***Research Shows Risk Tolerance Does Not Change Due to Market Conditions***

Sydney, Australia – (May 1, 2012) – Geoff Davey, co-founder of [FinaMetrica®](#), the leader in psychometrically-based risk profiling solutions for financial advisors, today released “On the Stability of Risk Tolerance,” an analysis of research that confirms FinaMetrica’s long-held assertion that risk tolerance is a stable psychological trait which does not change based on market fluctuation.

It has long been commonly thought that financial risk tolerance is highly unstable and particularly subject to market conditions. However, through a series of independent studies over more than a decade there is now strong evidence that this view is incorrect. “We now have six studies, four of which are based on large heterogeneous samples, all of which show that risk tolerance is stable over time,” said Davey. “What does change is perception of risk, and financial advisors must address this with clients.”

“This report explains some of the misconceptions that have shaped attitudes about risk profiling instruments,” said Michael Kitces, MSFS, MTAX, CFP®, CLU, ChFC, RHU, REBC, CASL, Director of Research, Pinnacle Advisory Group. “It also presents a compelling case for the financial advisory community to rethink how it measure clients’ risk tolerance and include appropriate discussions with clients during the financial planning process. In a world where risk tolerance is stable but risk perception varies, the real challenge, especially with difficult clients, is in managing their fluctuating risk (mis-)perceptions.

“This is good news for advisors,” added Davey. “If the client’s risk tolerance collapsed in a bear market there would be little the advisor could do to prevent a panicked sale. However, if increased risk perception is the likely Achilles heel, then the advisor can influence the client’s risk perception through education about market risk.”

[Download](#) the FinaMetrica report. Read Michael Kitces’ [blog](#).

### **About FinaMetrica**

FinaMetrica specializes in risk tolerance and risk-related matters. The FinaMetrica risk profiling system is based on a psychometric test of personal financial risk tolerance. Psychometrics, a blend of psychology and statistics, is the scientific discipline for testing attributes such as risk tolerance. Psychometrics provides international standards for the development of tests and for evaluating the qualities of developed test. Numerous academic studies have employed the FinaMetrica test and/or FinaMetrica data. The system enables advisers to make valid and reliable assessments of their clients’ risk tolerance, incorporate those assessments into the financial planning process and explain risk meaningfully. More information: [www.riskprofiling.com](http://www.riskprofiling.com).

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