THE REALITY OF RISK

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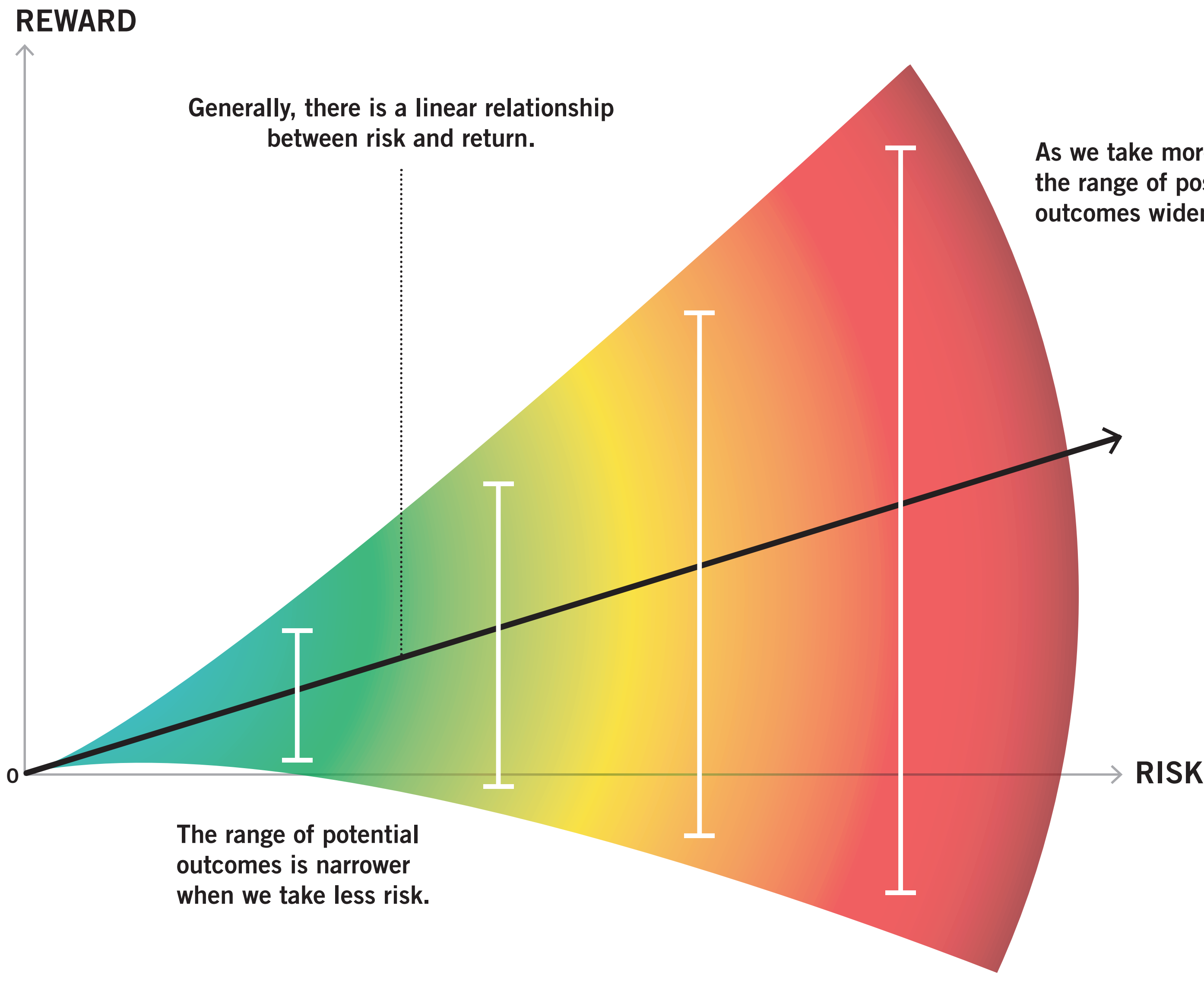
One of the more dangerous ideas in finance is that taking more risk produces higher returns. That's false.

What's true is that the more risk you take, the broader the range of possible outcomes becomes. Investors tend to focus on the black line in the graphic, which shows a positive relationship between risk and return. You can't grow without taking some risk. There are no free lunches in the market.

But, more importantly, note that the range of possibilities "fans" wider as risk increases. At an extreme level, investors invite both fortune and catastrophe. The rub is that we don't know ahead of time where along the spectrum we will be. Uncertainty is unavoidable.

The unending balancing act for all investors is confronting the need to take some risk in order to grow our capital without overextending ourselves.



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