

What is a risk profile?

A risk profile is a comprehensive evaluation of an individual's readiness and ability to take risks when investing. It acts as a guide, helping investors make decisions that align with their comfort level and financial aspirations. Every investor’s risk profile is unique, and it is typically an indication of the following two components:

* **Risk tolerance:** This refers to the emotional aspect of investing. How does an investor feel about potential losses? Can they sleep soundly at night knowing the value of their investments may decrease? Risk tolerance is all about the psychological comfort level.
* **Risk capacity:** Unlike risk tolerance, which is emotional, risk capacity is financial in nature. It is an assessment of how much risk an investor can afford to take, considering their financial situation and goals. An investor might be willing to take on significant risks, but their limited financial circumstances might not allow for it.

**Types of risk profiles**

Individual investors are broadly categorized into the five [types of risk profiles](https://www.bajajamc.com/knowledge-centre/articles/understand-the-types-of-risk-profile):

* **Conservative:** Investors with a conservative risk profile prefer relative stability over high returns. They prioritize mitigating the impact on capital and do not tolerate significant fluctuations well. Their portfolios often consist of fixed deposits, government bonds, and other low-risk instruments.
* **Moderate:** Falling between conservative and aggressive, moderate investors are willing to take calculated risks for potential returns. Their investment portfolios are a balanced mix of equities and fixed-income instruments, allowing for growth while cushioning against extreme [market volatilities](https://www.bajajamc.com/knowledge-centre/articles/understanding-market-risks-in-mutual-fund-investments).
* **Aggressive:** Investors with an aggressive risk profile are high-risk takers. They are in search of good returns and are comfortable with the associated volatility. Such investors have a significant portion of their portfolio in equities, stocks, or high-risk mutual funds. Their primary focus is capital appreciation.

### Moderately Conservative

These investors accept small risks in the hope of securing better returns in the future. They might be okay with equity exposure between 10-30% but rely on debts and other low-risk investment avenues.

### Moderately Aggressive

These investors are keen to take risks to increase their returns in the future. They will invest predominantly in equities with some debt or low-risk assets.

**Importance of Risk Profiling in Financial Planning**

Your risk profile enables you to determine the ideal investment asset allocation based on your needs. A financial advisor can help you understand your risk profile and might suggest investment avenues based on your profile and financial goals.