

Does Risk Tolerance Change in Response to Market Changes?

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This study used the 1992-2006 waves of the Health and Retirement Study to investigate changes in risk tolerance levels over time in response to stock market returns. Findings indicate that risk tolerance tends to increase when market returns increase and decrease when market returns decrease. Individuals who change their risk tolerance in this manner are likely to invest in stocks when prices are high and sell when prices are low. Financial advisors and educators should educate investors to help them overcome the bias of overweighting recent news of market performance.

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