



LeBaron Wealth Advisory Group



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Rethinking Risk: What It Really Means for Your Money

When Wall Street talks about “risk,” it usually means *volatility* – how much an investment’s price moves up or down over time. The thinking goes: the more it fluctuates, the more uncertain it is, and therefore, the riskier it must be.

But here’s the catch: that definition doesn’t always match how you think about risk.

For most investors, risk feels more personal. It’s not about daily price swings – it’s about the possibility of *losing money permanently or falling short of your financial goals*. And let’s face it: no one minds when their investments shoot up. It’s the *downside volatility* – the sudden drops – that keeps us up at night.

Why Wall Street’s Risk Measures Can Be Misleading

Wall Street often uses **risk-adjusted** return to evaluate investments. It’s a formula that tries to measure how much return you get for the amount of volatility you take on. Sounds smart, right? But it has some serious blind spots:

Short-Term Swings vs. Permanent Losses

Volatility treats all price movements the same – whether they’re temporary dips or permanent declines. That means quality companies with bumpy stock prices can be unfairly labeled as “risky”, while some assets perceived as more “stable” like bonds may seem more conservative than they really are due to price stability. Inflation, interest rate changes, credit risk, and liquidity issues can all erode bond returns, especially over time or in rising rate environments.

Good Volatility vs. Bad Volatility

Risk models treat gains and losses equally. A 10% jump is considered just as “risky” as a 10% drop. But let’s be honest, investors want upside volatility. It’s the downside that hurts.

Time Changes Everything

Most risk models use short-term data – daily or monthly returns. But over longer periods, volatility tends to act differently. What looks risky today may actually be more stable over the long haul.

Markets Don't Follow the Rules

Many risk models assume market returns follow a neat bell curve. But real markets are messy. Think of the 1987 crash or the 2008 financial crisis, those extreme events weren't supposed to happen under a normal distribution, yet they did. Markets experience extreme outcomes more often than theory predicts.

Diversification Doesn't Always Work

Risk-adjusted metrics often lead to over-diversification – what legendary investor Peter Lynch calls “di-worsification.” In other words, owning too many mediocre assets just for the sake of spreading risk. Buffett once said, “Diversification is protection against ignorance,” meaning that concentrating in quality ideas can be more effective than owning a little bit of everything.

Inflation: The Silent Risk

Many models ignore inflation when calculating “risk-free” returns. But inflation quietly eats away at your purchasing power, especially in low-return investments. Warren Buffet refers to it as return-free risk. Look at the performance of your favorite fixed income investment after fees, taxes, and inflation- the results will likely shock you.

The Real Risk: Losing Money Permanently

At LeBaron Wealth Advisory Group, we believe the most important risk is the *permanent loss of capital*. That's why we focus on the fundamentals – like free cash flow, debt levels, and the quality of management – when evaluating investments.

We also prioritize *real returns* (adjusted for inflation), because using strategies for preserving and growing wealth over time means the potential for staying ahead of rising costs. That's why our portfolios include asset classes that are designed to help hedge against inflation.

And we don't overlook *liquidity*. We are not an advocate of locking up your capital in illiquid investments that could limit your flexibility when you need it most.

Let's Talk About Your Portfolio

If you're wondering whether your current investment strategy truly reflects your goals – or if it's built on outdated definitions of risk – let's have a conversation. **Call us today at (941) 329-6276 to schedule a portfolio review** with our team at LeBaron Wealth Advisory Group. We'll help you cut through the noise, focus on what matters, and help you build a strategy that is designed to help you preserve and grow your wealth with purpose.

