Managing Risk:

Finding the Right Balance of Risk & Rewards in Your Investments

Every investment comes with some level of risk. Prices can rise or fall, economies can change, and unexpected events can disrupt even the best plans. But that doesn't mean investing is a gamble. In fact, managing risk is one of the most important parts of building wealth. Risk management isn't about avoiding risk altogether—it's about understanding the risks you're taking, choosing wisely, and being prepared for different outcomes. When done right, it helps you grow your money steadily while avoiding unnecessary losses.

So, What Is Risk Management in Investing?

Risk management is how you protect your money while still giving it a chance to grow. It's about knowing where your money is, how it might be affected by changes in the market or economy, and what you can do to limit the damage if things don't go as planned.

This is important whether you're investing in Jamaican stocks, government bonds, U.S. assets, or a mix of everything. When you manage risk well, you reduce the chances of major losses and give yourself more peace of mind.

Simple But Powerful Ways to Manage Risk

One of the most well-known strategies is diversification. This simply means spreading your money across different types of investments. For example, in 2020, during the height of the

COVID-19 pandemic, investors who owned both local and foreign assets, like Jamaican stocks, U.S. bonds, and U.S. dollar savings, saw fewer losses. Some parts of their portfolio dropped, but others stayed strong or even grew, helping them stay afloat.

"Investing is not gambling when you manage risk with intention and strategy."

Another key strategy is balancing your investment mix. This is about choosing how much of your money goes into higher-risk investments like stocks, and how much goes into lower-risk ones like bonds or fixed deposits. Someone in their 20s may be willing to take on more risk to grow their wealth, while someone closer to retirement may prefer safer, more stable returns.

Then there's rebalancing—checking your portfolio regularly and making adjustments if it gets off track. For instance, if U.S. tech stocks grow quickly and end up taking over most of your portfolio, you might want to sell some and move the money into something more stable. Investors who did this in early 2022 were able to lock in some profits before tech stocks declined later that year.

Holding some U.S. dollar investments is another smart risk move, especially in Jamaica, where the dollar often loses value. In 2022, people who kept part of their savings in U.S. dollars saw better results as the Jamaican dollar weakened and inflation rose. It's a way to protect your purchasing power over time.

And for active investors, setting limits on how much they're willing to lose on any one investment can prevent bigger losses. For example, someone who invested in a Junior Market stock in 2023 set a rule to sell the stock if it dropped more than 15%. That decision helped them avoid a 40% loss when the stock continued to fall.