



Things You Control

Investing Risks That Really Matter: Beyond Risk and Return

Arctic dwellers are said to have many words for snow—and it makes sense. When you live surrounded by it, when your daily survival depends on distinguishing subtle variations in ice, slush, or powder, you learn to notice the differences and to name them precisely. By contrast, in a temperate climate where snow is an occasional inconvenience, one catch-all word—snow—feels more than sufficient.

The same holds true for investing. In the popular press, the vast complexity of markets is reduced to two tidy words: risk and return. Commentators may embellish them with adjectives like “enormous risk” or “amazing returns,” but the vocabulary seldom gets more precise. As an investor, I find this oversimplification misleading.

Years ago, I came across Peter Bernstein’s excellent book, *Against the Gods: The Remarkable Story of Risk*. Later, I attended seminars and workshops where experienced academics and practitioners explored the many dimensions of risk. And, after decades of working as a professional investor, I’ve learned that “risk” is not one thing. It is a family of related but distinct concepts—much like snow for the Arctic dwellers.

The Many Dimensions of Risk

- **Losing Money** – The risk of permanently losing capital through bankruptcy, excessive concentration, or poor-quality investments.
- **Market Surprises** – Volatility, uncertainty, unexpected events, and extreme market outcomes can produce results that are very different from what investors expect.
- **Poor access to Your Money** – The risk that an investment cannot be converted to cash quickly or without a significant loss when funds are needed.
- **Not Reaching Your Goals** – The risk that a portfolio is either too conservative or too aggressive to provide the growth needed to achieve important financial objectives.
- **Running Out of Money** – The risk that withdrawals, market downturns, or poor timing could cause retirement assets to be depleted sooner than expected.
- **Investor Behavior** – The risk that fear, greed, or other emotions lead investors to abandon a sound strategy at precisely the wrong time.
- **Life and Financial Details** – The risks created by changing income, career circumstances, taxes, estate planning, account ownership, paperwork, or other financial details that can affect long-term wealth.

Each of these perspectives highlights a different face of risk. Together, they remind us that risk is not monolithic but multidimensional. The more nuanced our vocabulary, the better our judgment. Everyday conversation may get by with the shorthand of “risk,” but serious portfolio management demands precision. I often illustrate this with another analogy: imagine an electrician who confuses

“volts” with “watts.” They both deal with electricity and sound vaguely similar, but treating them as interchangeable could prove fatal. In investing, confusing or oversimplifying risk can be just as destructive to wealth.

The takeaway is simple but powerful. Just as arctic dwellers developed a rich vocabulary to survive in an environment dominated by snow, investors need a more nuanced language of risk to navigate financial markets. Expanding our understanding beyond the single word “risk” allows us to make better, more informed decisions. And in the world of investing, that precision can make the difference between merely surviving and truly thriving.

At Dorchester Advisors, we have built our philosophy around this broader view. We find that most investors cannot accurately assess, much less quantify, their own “risk profile.” Instead, we focus on time horizon and goals, then determine the minimum return a portfolio must achieve to meet those objectives. From there, we design strategies that balance risk with return rather than chase the highest return possible.

If you would like to discuss how these types of investment risks impact retirement income planning I would be happy to have a conversation.

Why Things You Control are Important

In Investing (as in Life) we can: hope, worry or plan.

I believe that when we hope or worry, we are largely looking at the future and are focused on things we do not control. We hope the markets will get higher and we will make money. Or we worry that markets will collapse and we may lose all our money. And yet, deep down in our hearts, we know that whether our thoughts are optimistic or pessimistic they simply do not influence future outcomes.

We can also look at the future plan-fully. When we do this we tend to focus on the things that we do control. And, by picking activities that are in our control and that are important to our future we have a far better chance of achieving our goals. Of course, life holds few guarantees! So, for example, while we all hope that our favorite stock pick will be a high performing stock, not implementing a properly diversified portfolio is plainly irresponsible to our financial well-being.

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DorchesterAdvisors is a Registered Investment Advisor in NJ, NY and MI.

Our Financial Planning Principles

Without a Purpose, accumulating money can become a soul-less task. A financial plan gives your savings a purpose.

It's OK to be broke when you are young - not so when you are old: Studies show that people typically tolerate risk and uncertainty better when they are younger.

Getting down from Mount Everest is as important as getting up: Pay as much attention to consuming your money after you retire as you do to accumulating it before you retire.

Planning is life-stage dependent: The principles of saving and investing money in your early years are very different from the techniques that you use in retirement to generate a reliable income stream.

Financial confidence comes from being on top of your taxes, protecting yourself from risks, having a clear picture of your investments and debt, and specific targets for saving and spending.

Achieving financial independence requires a careful balancing of Income, expenses, taxes, and savings. This balancing act (planning) is not intuitive, nor can it be done well on the back of an envelope, but effective plans do give more peace of mind.

Identify your true risks (in contrast to investment volatility, labelled as risk, or uncertainty) and take action to manage them using the correct risk management tools. Pick the right tools for the job - investments won't manage the risks you face, risk products (insurance) won't deliver the growth and flexibility you need.

Taxes remain important even after you retire. However, in retirement your investments become the principal source of your income and hence drive your taxes.

In matters of health: it's your body but your doctor knows better how your body works. So it is with your money: A partnership with an advisor will help you to reach your financial goals - you save, they help your savings grow. Together you can get there faster.