

ASSESSING RISK TOLERANCE WITH A LIKERT-TYPE SCALE

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A risky decision is one in which a person cannot be certain about the outcome. Financial risk tolerance, then, is a person's willingness to engage in a risky behavior. The attitudinal construct of financial risk tolerance is an important factor to understand from both an academician and practitioner perspective.

The purpose of this poster is to present findings from a study that was designed to determine if a Likert-type scale, consisting of six items, can offer researchers and practitioners a psychometrically sound measure of risk tolerance. Data for this study were obtained from a convenience sample of faculty and staff from two large midwestern universities ($N = 406$). Respondents were asked to answer questions related to risk-taking attitudes. A 13-item risk tolerance scale (see Grable, J. E., & Lytton, R. H. [1999]. Financial risk tolerance revisited: The development of a risk assessment instrument. *Financial Services Review*, 8, 163-181) and the SCF risk assessment item were included in the survey. Six Likert-type risk items were also included (Table 1). Table 1 shows the mean and standard deviation score for each item.

The reliability of the summated scale was .80. This level of reliability, as measured by Cronbach's alpha, suggested a relatively high level of internal consistency. The concurrent validity of the scale was also measured. Responses to the summated scale were compared to scores on the 13-item measure, the SCF item, and respondents' actual holdings of stock and cash. Table 2 shows the results of these validity tests. The summated scale showed a significantly positive association to both the 13-item measure and the SCF item. While not a perfect substitute for either, the summated scale showed a high level of concurrent validity, which provides confidence that the scale does, in fact, measure multiple dimension of risk attitude. As might be expected, the relationship between scale scores and cash ownership was negative. The relationship between scale scores and stock ownership was positive. Both relationships were statistically significant.

Table 1
Six Likert-Type Risk Assessment Items and Risk Scale

Item	Mean	SD
I would prefer a sure gain of \$500 over a 50% chance to gain \$1,000 and a 50% chance of gaining nothing.	3.73	1.93
Investing is too difficult to understand.	4.59	1.69
I am more comfortable putting my money in a bank account than in the stock market.	4.86	1.99
When I think of the word "risk" the term "loss" comes to mind immediately.	5.09	1.80
Making money in stocks and bonds is based on luck.	5.49	1.58
In terms of investing, safety is more important than returns.	5.68	1.55

Results suggest that the six-item scale provides researchers and practitioners with a reliable and valid alternate measure of financial risk tolerance attitudes. More research is needed to support the expanded use of this scale within the financial counseling and planning profession.

Table 2
Concurrent Validity Relationships

	Summated Scale
13-Item Risk Scale	.59*
SCF Risk Item	.50*
Cash Holdings	-.13**
Stock Holdings	.39*

* $p < .01$ ** $p < .05$

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