5 Signs That Your Investments are Too Risky

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Nobody sets out to lose money in the stock market. Yet, one third of investors finished 2014 with 0 percent or negative returns, according to data from San Francisco investment management company SigFig.

In hindsight, the people who lost money likely picked the wrong investments. The problem is, you can't know with certainty if an investment will be successful. This is why you diversify. Yet, many investors' portfolios are too aggressive for their age, investing horizon and risk tolerance.

"Almost every investor who walks into my office feels safe about the way their portfolio was built," says Brad Jenkins, CEO of Jenkins Wealth. Yet, he adds, "when you do an analysis, they are not diversifying -- even though they own a bunch of bonds and a bunch of stocks."

How do you know whether your portfolio is properly diversified -- or too risky? There are red flags. From not having the right bond allocation to investing with a home bias, here are five signs that your need to de-risk your portfolio.

1: Your Stock -- or Bond Exposure Doesn't Match Your Risk Tolerance

SigFig recently analyzed the portfolios of more than 30,000 investors against a

risk tolerance questionnaire. The result: across all generations, investors are severely underweighted in bonds. The trend is most alarming among investors in their 50s and 60s, who are on the brink of retirement -- yet only 3 percent of them had an allocation to fixed-income investments that matched their risk profile.

John Sweeney, executive vice president at Fidelity Investments, advises investors to match their bond exposure with their investment goals and time horizon. While younger investors can afford to have the majority of their portfolio in equities, those approaching retirement will want a higher exposure to fixed-income investments as a cushion against a market downturn.

To determine an asset allocation that works best for you based on your investment horizon, risk tolerance, age and portfolio size, try SigFig's risk questionnaire.

2. Your Investments Overlap

You may think you have a moderate to conservative diversified portfolio because you are invested in mutual funds and exchange-traded funds. But that can still be risky -- if all of the funds are investing in the same things.

Let's say you hold a dozen different ETFs. Nice diversification, right? Well, if they are actively managed, chances are the top holdings will be the same. Edison Byzyka, vice president of investments at Hefty Wealth Partners, says a good exercise in de-risking a portfolio is to compare the top 10 holdings across all the funds you own. If they look similar, sell or underweight some and buy others to achieve an asset allocation optimal for your risk profile and investing horizon.

3. Your Portfolio Is Heavily in Just One or Two Stocks

Every investor has that one stock, company or investment idea that they love. But that loyalty may hurt you in the long term if your portfolio is invested in a single stock and that stock happens to not perform well. Yet, a quarter of investors who own individual stocks have more than 23 percent of their portfolios invested in one single stock, according to SigFig. And 15 percent of investors have more than half of their portfolios invested in just two stocks.

Those people are not the exception, either: on average, investors in SigFig's analysis have 15 percent of their portfolios in a single stock. "A lot of people tend to get emotionally tied to a name or idea and tend to overweight that decision," says Byzyka. "At that point, you are at the mercy of Wall Street and what that individual company does."

4. For Your Investments, You Root for the Home Team

Diversification is the recipe for success in investing, but it doesn't stop at having a portfolio of stocks and bonds. You also want to diversify by asset class, and that means having an intentional exposure. Yet many investors don't, succumbing to the phenomenon known as home bias, or investing in companies based where you live. This can be as broad as showing a preference for domestic stocks, or as local as investing in companies headquartered or with a large presence in your

state. "We live in a globally diversified world and your portfolio has to match that," Jenkins says.

5. Your investments Keep You Up at Night

At the end of the day, your asset allocation is right for you if you have the stomach to handle the ups and downs of your portfolio. Unfortunately, many people pay close attention to their investments on a daily basis and end up making emotional decisions with their investments, often selling low and buying high. "We saw that in 2009," says Sweeney. "Portfolios were dropping and especially for folks close to retirement, it became a source of anxiety." If you are losing sleep because your portfolio is moving around, you may have an asset allocation that is too risky for you.

"You don't want to look at [your portfolio] month to month, or even at one-year performance," Sweeney says. You should be looking at your stocks or stock funds on a five-year performance basis, and bonds and fixed-income funds on a three-year basis. If you need cash in a year, he adds, you should be in a money market account.

Donna Fuscaldo is a contributing writer at SigFig. Nearly a million people use SigFig to track, improve and manage over $300 billion in investments.