

THE
Angel Insights
SERIES

Risk Tolerance vs. Risk Capacity

Aligning Psychology, Capital, and Opportunity

ISSUE 4

WFW WOMEN
FUNDING
WOMEN

In partnership with
Richard Rooney

A LETTER FROM WFW'S CO-FOUNDERS

At *Women Funding Women Inc. (WFW)*, we are driven by the belief that informed action is the key to building a more equitable and dynamic investment landscape. It's with this conviction, and the generous support of *Richard Rooney*, that we proudly present **The Angel Insights Series**.

This insightful resource guide is designed to illuminate the world of angel investing for everyone involved. As co-founders of *WFW*, we bring our diverse experiences as entrepreneurs, investors, and corporate directors to address a critical need: bridging the funding gap for women-led businesses in Canada.

By demystifying the angel investing process, we aim to inspire and equip both founders seeking capital and funders looking to make impactful investments. This series is crafted to provide angel investors with the knowledge and tools to confidently invest in high-potential women-led ventures, and to offer founders invaluable insights into navigating the funding landscape, understanding investor perspectives, and securing the capital you need to thrive.

Whether you're a trailblazing founder ready to grow your venture or an individual eager to diversify your portfolio and champion the next generation of innovators, this series is for you. We believe that by mobilizing more women to become angel investors and by providing founders with the resources to effectively raise capital, we can build an equitable funding landscape, where women's groundbreaking ideas find the support they need to flourish.

We're happy you're here, helping us to bridge the persistent funding gap for Canadian women entrepreneurs.

Warmly,

Lara, Deborah and Sherry
Co-founders,
Women Funding Women Inc.



Introduction

A SERIES ON HOW WOMEN INVEST

This is the first in a series of articles from Women Funding Women Inc. (WFW), exploring how women approach and evaluate risk, particularly in the context of angel investing.

As more women step into roles as investors, founders, and funders, the conversation around risk is evolving. It is becoming less about avoidance and more about intentional allocation: how capital is deployed thoughtfully, aligned with both financial capacity and personal conviction.

Angel investing sits at the intersection of this shift. It is one of the highest-risk forms of investing, but also one of the most powerful in shaping innovation, supporting founders, and influencing the future economy.

To engage effectively in this space, investors need a clear framework for understanding risk, not as a single concept, but as a balance between what they are comfortable with and what they can afford.

This piece lays that foundation by distinguishing between risk tolerance and risk capacity, two concepts that, when aligned, enable investors to participate in opportunity with clarity and confidence.

Disclaimer: *The Angel Insights Series is published by WFW and provides general educational information only. It is not intended as, and does not constitute, financial or legal advice. Readers should consult with qualified financial and/or legal professionals for advice tailored to their specific circumstances.*

Why “Risk” Is Often Misunderstood

IN INVESTING, RISK IS ONE OF THE MOST FREQUENTLY USED, AND LEAST PRECISELY DEFINED CONCEPTS.

It is often treated as a single idea, when in reality, effective decision-making depends on understanding two distinct dimensions:

Risk tolerance:

your emotional comfort with uncertainty

Risk capacity:

your financial ability to absorb loss

Confusing the two leads to misaligned portfolios, poor decisions during market stress, and ultimately weaker long-term outcomes.

Clarity begins with separating how you *feel* about risk from what you can *afford*.

Risk Tolerance: The Behavioural Dimension

RISK TOLERANCE REFLECTS HOW AN INVESTOR RESPONDS EMOTIONALLY TO VOLATILITY AND UNCERTAINTY.

It governs reactions to:

- Market declines
- Short-term losses
- Illiquidity
- Uncertain outcomes

Risk tolerance is shaped over time by experience, knowledge, and personality. Investors who understand markets and have lived through multiple cycles tend to develop greater comfort with volatility. Others, particularly those with limited exposure or negative past experiences, may find even modest fluctuations difficult to tolerate.

This matters because

behaviour drives outcomes.

Investors who cannot tolerate volatility are more likely to:

- Sell during downturns
- Avoid growth assets
- Shift strategies at the wrong time

These behaviours erode long-term returns more than market volatility itself.

Risk Capacity: The Financial Reality

RISK CAPACITY REFLECTS THE OBJECTIVE ABILITY TO TAKE RISK WITHOUT COMPROMISING FINANCIAL GOALS.

It is determined by structural factors such as:

Time horizon	Longer timelines increase the ability to recover from losses
Liquidity needs	Near-term cash requirements reduce flexibility
Income stability	Predictable income supports higher risk capacity
Asset base	Greater wealth provides a larger buffer against loss
Financial obligations	Commitments such as education, housing, or philanthropy reduce available flexibility

Unlike risk tolerance, capacity is not subjective. It is grounded in financial reality.

An investor may feel comfortable taking risk, but if they depend on their portfolio for income or need access to capital in the near term, their ability to take risk is inherently limited.

When Tolerance and Capacity Diverge

IN PRACTICE, RISK TOLERANCE AND RISK CAPACITY OFTEN DO NOT ALIGN.

This misalignment is one of the most common sources of poor investment outcomes. Four distinct profiles emerge:

1. High Tolerance + High Capacity = Optimal Alignment

Investors in this position can both financially and emotionally withstand risk. This alignment supports growth-oriented strategies and long-term compounding.

2. High Capacity + Low Tolerance = Under-Invested

These investors have the financial ability to take risk but remain overly conservative due to discomfort with volatility.

The result is often:

- Excess cash or fixed income exposure
- Missed growth opportunities
- Lower long-term wealth accumulation

3. High Tolerance + Low Capacity = The Danger Zone

This is the most precarious position. Investors are comfortable taking risk but lack the financial structure to absorb losses.

This is common among:

- Entrepreneurs with concentrated wealth
- Investors over-allocating to speculative or illiquid assets

The consequence can be permanent capital impairment.

4. Low Tolerance + Low Capacity = Capital Preservation

In this case, conservative positioning is appropriate. The focus should be on stability, liquidity, and income.

Applying the Framework to Angel Investing

ANGEL INVESTING REPRESENTS ONE OF THE HIGHEST-RISK AREAS OF CAPITAL ALLOCATION.

Angel Investing Involves

- Long time horizons (often 7–10+ years)
- Limited liquidity
- High failure rates
- Significant variability in outcomes

Alignment in Angel Investing

Because of these characteristics, angel investing requires alignment between both tolerance and capacity.

Even for investors with strong financial resources, venture investments should represent only a portion of total portfolio exposure.

A disciplined approach includes:

- Allocating a defined percentage of assets
- Diversifying across multiple investments
- Accepting that some investments will not succeed

For Stability

This ensures that participation in high-growth opportunities does not compromise overall financial stability.

Rethinking Risk: Women as Intentional Investors

TRADITIONAL NARRATIVES HAVE OFTEN FRAMED WOMEN AS MORE RISK-AVERSE THAN MEN

A more accurate interpretation is that women tend to be more intentional in how they approach risk.

In practice, many women investors:

- Take a longer-term view
- Trade less frequently
- Focus on fundamentals rather than short-term movements

These behaviours often lead to stronger long-term outcomes. What may appear as lower risk tolerance is often a reflection of thoughtful decision-making and disciplined investing. This perspective becomes particularly powerful as women take on greater roles in capital allocation.

The Funding Gap for Women-Led Ventures

WOMEN FOUNDERS CONTINUE TO RECEIVE A DISPROPORTIONATELY SMALL SHARE OF EARLY-STAGE INVESTMENT CAPITAL.

Despite strong representation in entrepreneurship and compelling evidence of performance. The challenge is not a lack of opportunity. It is a lack of access, particularly to early-stage capital and investor networks.

Addressing this imbalance requires participation from investors who are willing to expand the scope of capital allocation.

“The challenge is not a lack of opportunity. It is a lack of access, particularly to early-stage capital and investor networks.”

The Role of Women Angel Investors

ANGEL INVESTORS ARE OFTEN THE FIRST TO PROVIDE MEANINGFUL EXTERNAL CAPITAL TO A BUSINESS.

Their decisions influence:

- Which companies gain early traction
- Which founders access mentorship and networks
- Which ideas have the opportunity to scale

When women invest in women-led ventures, the impact extends beyond individual investments. It begins to reshape the broader ecosystem

As more women participate as investors, several shifts occur:

- Broader access to capital for underrepresented founders
- Expanded networks that support growth
- More diverse pattern recognition in investment decisions
- Normalization of women as capital allocators

Aligning Risk with Opportunity

FOR INVESTORS CONSIDERING ANGEL INVESTING OR EXPANDING INTO HIGHER-RISK ASSETS, ALIGNMENT REMAINS CRITICAL.

A DISCIPLINED FRAMEWORK INCLUDES:

- Understanding personal comfort with uncertainty
- Assessing financial ability to absorb loss
- Structuring allocations appropriately
- Maintaining diversification
- Committing to a long-term investment horizon

This disciplined approach allows investors to engage with opportunity while preserving financial resilience.

A Shift in Capital Allocation

A SIGNIFICANT TRANSFER OF WEALTH IS UNDERWAY, WITH WOMEN INCREASINGLY CONTROLLING A LARGER SHARE OF FINANCIAL ASSETS.

This moment presents an important opportunity, not just to preserve wealth, but to direct how it is deployed.

Capital allocation decisions influence:

- Which businesses grow
- Which industries evolve
- Which founders succeed

Even modest shifts in where capital is directed: particularly toward early-stage and women-led ventures, can have meaningful long-term impact.

Conclusion: Risk as a Strategic Tool

RISK IS OFTEN FRAMED AS SOMETHING TO MINIMIZE OR AVOID.

In reality, it is the foundation of both wealth creation and innovation. The key is not eliminating risk, but understanding it.

When investors align:

What they are comfortable with (**tolerance**) and what they can afford (**capacity**) they position themselves to make decisions with clarity and discipline.

For women investors, this alignment is particularly powerful. It enables participation not only in building personal wealth, but in shaping how capital flows through the economy; supporting innovation, expanding opportunity, and influencing the next generation of growth.

Risk, when approached thoughtfully, becomes more than a variable to manage. It becomes a deliberate choice, and a lever for long-term impact.



Catch up on previous issues

Issue 1

[What is an Angel Investor?](#)

Issue 2

[Forms of Early-Stage Financings and Term Sheets](#)

Issue 3

[What Angel Investors Need to Know to Invest in Startups](#)

[Read now](#)

ABOUT WFW

Women Funding Women Inc. (WFW) is a Collective driven by a singular mission: to **address the persistent funding gap faced by Canadian women entrepreneurs.**

WFW operates as a platform and community, not a fund itself. Recognizing that access to capital is crucial for growth and success, we empower both sides of the funding equation. We're mobilizing more women to invest in women by activating more Canadian women angel investors, and connecting new and experienced women funders with high-potential, women-led ventures.

Our strategic alliances bring together organizations and resources committed to empowering women, championing gender equality, and catalyzing economic growth. By fostering informed action and building strong connections, we can create a more equitable and dynamic investment landscape.

**A COLLECTIVE ADDRESSING
THE PERSISTENT FUNDING GAP
FACED BY CANADIAN WOMEN
ENTREPRENEURS.**

**WFW IS A PLATFORM, A
COMMUNITY, A MISSION -
IT IS NOT A FUND.**

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Together, we're building momentum to supercharge angel investing in women-led ventures, setting sights on coast-to-coast impact.

Canadian women are empowering women entrepreneurs by providing crucial funding. You can play a vital role in bridging the funding gap for women-led ventures by joining this movement - subscribe to our newsletter and follow us on LinkedIn!

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