

Risk Tolerance Questionnaire



Risk Tolerance Questionnaire

This questionnaire is designed to measure your risk tolerance – an input used in determining your risk profile and appropriate investment strategy.

Risk tolerance is a measure of your attitudes and perceptions towards the uncertainties associated with investing.

- ▶ A risk-averse investor is less willing to accept risk of loss and is therefore comfortable with lower returns on their investment; and conversely
- ▶ An investor with high risk-tolerance is willing to accept greater risk of loss in exchange for potentially higher investment returns.

Risk tolerance is only one part of the broader financial planning process. Your financial planner will determine the most appropriate portfolio based on your ability to take risk (i.e. risk capacity), financial objectives, financial situation and particular financial needs, while taking the outputs from this questionnaire into account.

This questionnaire does not consider your capacity to take risk, financial objectives, financial situation or specific financial needs.

▶ **Client(s)**

.....
Client 1: First Name

.....
Last Name

.....
Client 2: First Name

.....
Last Name

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Risk Aversion

	Client 1	Client 2																		
<p>1. Any investment requires taking some level of risk. There are going to be times when the value of your investment rises and falls. Over the next year, is there an amount you cannot afford to have fall in value? For example, you may require funds to make a purchase or payment.</p> <p>A. No B. Yes</p> <p>If yes, please specify the amount here \$</p>																				
<p>2. The graph shows the potential one-year performance of five investment portfolios. The green bars show the potential gains, while the blue bars show the potential loss each portfolio could experience.</p> <table border="1"> <caption>Portfolio Performance Data</caption> <thead> <tr> <th>Portfolio</th> <th>Potential Gain (%)</th> <th>Potential Loss (%)</th> </tr> </thead> <tbody> <tr> <td>A</td> <td>11.0%</td> <td>-6.5%</td> </tr> <tr> <td>B</td> <td>15.0%</td> <td>-9.5%</td> </tr> <tr> <td>C</td> <td>22.0%</td> <td>-15.0%</td> </tr> <tr> <td>D</td> <td>29.5%</td> <td>-21.0%</td> </tr> <tr> <td>E</td> <td>37.0%</td> <td>-27.0%</td> </tr> </tbody> </table> <p>Note - Actual portfolio outcomes could fall outside these ranges</p> <p>Assuming annual returns fall in this range most of the time, which of these portfolios would you prefer?</p> <p>A. Portfolio A B. Portfolio B C. Portfolio C D. Portfolio D E. Portfolio E</p>	Portfolio	Potential Gain (%)	Potential Loss (%)	A	11.0%	-6.5%	B	15.0%	-9.5%	C	22.0%	-15.0%	D	29.5%	-21.0%	E	37.0%	-27.0%		
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<p>3. Investment markets go up and down. If your diversified investment portfolio fell by 20% over a short period, how would you react?</p> <p>A. I would not change my portfolio. B. I would wait at least one year before changing to options that are more conservative. C. I would wait at least three months before changing to options that are more conservative. D. I would immediately change to options that are more conservative.</p>																				

	Client 1	Client 2
<p>4. For many investors, the possibility of losing money is a key concern. How do you feel about investment losses?</p> <p>A. Investment losses make me very uncomfortable. I check my investments often, so I can sell quickly if they begin to lose money.</p> <p>B. Investment losses make me uncomfortable, but not uncomfortable enough to sell immediately. If losses occur over several months, I would probably sell.</p> <p>C. Investment losses in the short-term do not bother me. I would wait an entire year before making changes.</p> <p>D. I understand that investments can have losses, but also that I have a better chance of reaching my investment goals by sticking to the strategy over the long term. I would not make changes.</p>		
<p>5. Which of the following choices best reflects your attitude toward inflation and risk? Inflation is an economic situation in which the general price of goods and services increases resulting in the same dollar buying less goods and services than before.</p> <p>A. My main goal is to avoid loss, even though I may only keep pace with inflation.</p> <p>B. My main goal is to earn slightly more than inflation, while taking on a low level of risk.</p> <p>C. My main goal is to increase investment returns and can accept short-term losses. However, I am not comfortable with the larger losses and performance shifts that may be experienced with the most aggressive investments.</p> <p>D. My main goal is to maximise investment returns, and will accept the larger potential losses and performance shifts (especially in the short-term) that can be associated with pursuing higher returns.</p>		
<p>6. Most investments go up and down. If your portfolio incurred a loss during one year, when would you sell down your portfolio?</p> <p>A. Only if the investment loses 10%.</p> <p>B. Only if the investment loses 15%.</p> <p>C. Only if the investment loses 20%.</p> <p>D. Only if the investment loses 25%.</p> <p>E. I would not sell despite any loss.</p>		

	Client 1	Client 2																								
<p>7. Investing involves a trade-off between return and risk. Investments with higher returns generally have higher risk (i.e. chance of loss). Investments with lower returns generally have lower risk or chance of loss. Which of the following statements best describes your attitude to risk?</p> <p>A. I am willing to accept lower long term returns to limit my chance of loss.</p> <p>B. I am willing to bear some risk and chance for loss to achieve higher returns, but prefer most of my portfolio to be invested in investments with low return/risk.</p> <p>C. I am willing to accept moderate risk to achieve higher returns. Minimising risk and maximising return are equally important to me.</p> <p>D. I am willing to accept high risk to achieve high returns on my investments.</p> <p>E. I am only concerned with maximising investment returns. I am not concerned with risk or loss and will accept significant short-term fluctuations in my portfolio.</p>																										
<p>8. The table presents the hypothetical value of five sample portfolios after one-year. The investment is \$100,000 at the beginning of the year. The table shows three return scenarios: very strong, average, and very poor.</p> <table border="1"> <thead> <tr> <th>1yr Return Scenario:</th> <th>Very Strong (\$)</th> <th>Average (\$)</th> <th>Very Poor (\$)</th> </tr> </thead> <tbody> <tr> <td>Portfolio 1</td> <td>137,000</td> <td>107,000</td> <td>73,000</td> </tr> <tr> <td>Portfolio 2</td> <td>129,500</td> <td>106,250</td> <td>79,000</td> </tr> <tr> <td>Portfolio 3</td> <td>122,000</td> <td>105,500</td> <td>85,000</td> </tr> <tr> <td>Portfolio 4</td> <td>115,000</td> <td>104,650</td> <td>90,500</td> </tr> <tr> <td>Portfolio 5</td> <td>111,000</td> <td>104,000</td> <td>93,500</td> </tr> </tbody> </table> <p>Note - Actual portfolio outcomes are likely to vary.</p> <p>Which portfolio would you prefer?</p> <p>A. Portfolio 1</p> <p>B. Portfolio 2</p> <p>C. Portfolio 3</p> <p>D. Portfolio 4</p> <p>E. Portfolio 5</p>	1yr Return Scenario:	Very Strong (\$)	Average (\$)	Very Poor (\$)	Portfolio 1	137,000	107,000	73,000	Portfolio 2	129,500	106,250	79,000	Portfolio 3	122,000	105,500	85,000	Portfolio 4	115,000	104,650	90,500	Portfolio 5	111,000	104,000	93,500		
1yr Return Scenario:	Very Strong (\$)	Average (\$)	Very Poor (\$)																							
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Scoring System

Your Answers: Q1 Q2 Q3 Q4 Q5 Q6 Q7 Q8

Client 1:

Client 2:

Risk Aversion Score

Question 2	Question 3	Question 4	Question 5
A. 0	A. 12	A. 0	A. 0
B. 3	B. 8	B. 4	B. 4
C. 6	C. 4	C. 8	C. 8
D. 9	D. 0	D. 12	D. 12
E. 12			

Question 6	Question 7	Question 8
A. 0	A. 0	A. 12
B. 3	B. 3	B. 9
C. 6	C. 6	C. 6
D. 9	D. 9	D. 3
E. 12	E. 12	E. 0

Combining the Scores

There are six potential risk profiles/outcomes:

- ▶ No suitable investment – client best suited to a cash deposit account
- ▶ Conservative
- ▶ Moderate
- ▶ Balanced
- ▶ Assertive
- ▶ Aggressive

▶ Summary Scoring Grids

The risk tolerance score can be matched to the relevant profile in the table below.

Risk Aversion Score	Risk Profile
1-11	Conservative
12-32	Moderate
33-53	Balanced
54-74	Assertive
75-84	Aggressive

Additional Adviser Notes

- ▶ **Question 1** is not scored. If the client cannot afford for an amount to fall in value over the next year, that amount should be invested in a cash account or equivalent.
- ▶ **If an investor has risk aversion score of zero**, even the most conservative portfolio (i.e. Conservative) may not be an appropriate investment option and a cash account may be appropriate.
- ▶ **The scores for questions 2 and 8 should be the same.** If not, then the questionnaire should be revisited with the client.

Custom Risk Profile

After completing the questionnaire if for some reason you want to deviate from the risk profile result you can use this section to create your own custom risk profile. The reason for change should be clearly documented below.

	Client 1	Client 2
Custom Risk Profile		
Basis for Custom Risk Profile		

Risk Profile Descriptions

	Long term Asset Mix		Description
	Growth %	Defensive %	
Conservative	15	85	The Conservative risk profile is designed for investors with a minimum two-year timeframe or those that seek a portfolio invested predominantly in interest bearing assets, with a small proportion of growth assets. This portfolio also suits investors who give a high priority to the preservation of capital (while understanding loss is still possible) and are therefore willing to accept lower potential investment performance, hence the 85 percent exposure to defensive assets (cash and fixed interest).
Moderate	30	70	The Moderate risk profile is designed for investors with a minimum three-year timeframe or those who seek a diversified portfolio of interest bearing and growth asset classes, with an emphasis on interest bearing assets. This portfolio also suits investors seeking a lower level of investment value volatility, and therefore willing to accept lower potential investment performance, hence the 70 percent exposure to defensive assets (cash and fixed interest).
Balanced	50	50	The Balanced risk profile is designed for investors with a minimum five-year timeframe. This portfolio also suits investors who desire a modest level of capital stability but are willing to accept moderate investment value volatility in return for commensurate potential investment performance, hence the 50 percent exposure to growth assets (shares, listed property and infrastructure) and 50 percent exposure to defensive assets (cash and fixed interest).
Assertive	70	30	The Assertive risk profile is designed for investors with a minimum seven-year timeframe or those who are willing to accept higher levels of investment value volatility compared to more defensive options in return for higher potential investment performance. Some exposure to interest bearing assets is still desired, but the primary concern is a higher return, hence the 70 percent exposure to growth assets (shares, listed property and infrastructure).
Aggressive	90	10	The Aggressive risk profile is designed for investors with a minimum nine-year timeframe or those who are willing to accept high levels of investment value volatility in return for high potential investment performance. The 90 percent exposure to growth assets (shares, listed property and infrastructure) means that capital stability is not a consideration.

Risk Profile and Client Acknowledgement

Client 1: Suggested Risk Profile:	
Client 2: Suggested Risk Profile:	

Client acknowledgment and declaration

I/we acknowledge the suggested risk profile noted above has been generated from the answers I/we provided to questions asked in this risk tolerance questionnaire. I/we declare that the answers provided are true and accurate to the best of my/our knowledge. Or if this is a custom profile I/we acknowledge the stated basis for change.

I/we understand that this questionnaire does not consider my/our risk capacity, financial objectives, financial situation or particular financial needs and the suggested risk profile is itself insufficient information to determine the most appropriate portfolio for my/our financial objectives, financial situation and particular financial needs.

Signature: Client 1	
Signature: Client 2	
Date of completion	

Adviser acknowledgement and declaration

I declare that the suggested risk profile noted above has been determined by me based on the answers provided by the client to this risk tolerance questionnaire. Or if this is a custom profile I acknowledge the stated basis for change.

I understand that this risk tolerance questionnaire does not consider the client's risk capacity, financial objectives, financial situation or particular financial needs and the suggested risk profile is itself insufficient information to determine the most appropriate portfolio for the client's financial objectives, financial situation and particular financial needs.

Signature:	
Date of completion	