

Personal Financial Profiling

Introduction

Most financial decisions involve risk. Different people are comfortable with different levels of risk.

Unlike, say, height or weight, there is no unit of measurement for risk tolerance. A person's risk tolerance can only be measured relative to others on a constructed scale, in much the same way as IQ is measured.

By using this Risk Tolerance Test, we obtain a reliable assessment of your risk tolerance in terms that are meaningful to you and to us! The Risk Tolerance report will guide your and our financial decision making. In particular, the report provides the basis for your instructions to us on the level of risk you would prefer.

In the questionnaire, you are asked about your attitudes, values and experiences. It takes about 15 minutes to complete.

Date Completed _____

First Name _____

Middle Initial _____

Last Name _____

Email Address (if any) _____

Signature _____

Personal Financial Profiling

Why are 25 questions needed?

The aim is to cover a broad range of situation involving financial risk about which you might seek advice and to ask sufficient questions to obtain an accurate measure of your risk tolerance.

A person's answer to a specific question may be influenced by a particular experience they have had, or their mood at the time. Or they may have misinterpreted the question. Or they may simply have made a mistake.

What if the situation described in a question has never happened to me, or will never happen to me?

There are a number of questions that ask you to assume or imagine you are in a certain situation. These questions are designed to gain a picture of what you would do in such circumstances, regardless of whether you have ever been in them or are ever likely to be in them. Please answer as best you can on the available information.

What if a question asks about a situation where, in real life, I would have (or would seek) more information than is given in the question?

Some questions require you to make a decision based on limited information. While, in real life, you may wish to obtain more information before making your final decision, these questions are designed to gain an idea of what you would do given the limited information. Please answer as best you can on the available information.

What if none of the choices in a multiple-choice question is my preferred answer?

Some questions give you a limited choice of responses and may not include what would be your preferred answer. These are designed to obtain a picture of what you would do given the choices available. Please answer as best you can on the available choices.

Does this questionnaire replace discussion between client and adviser?

Not at all. They act as catalysts to, and provide an objective starting point for, a more informed, more focused discussion. It is our hope that this questionnaire leads to clearer instructions from clients and greater understanding, by both client and adviser, of clients' attitudes to risk.

Risk Tolerance Questionnaire

Please answer all the questions by circling one of the options. Choose the option that best indicates how you feel about each question. If none of the options is exactly right for you, choose the option that is closest.

1. Compared to others, how do you rate your willingness to take financial risks?

- 1 Extremely low risk taker.
- 2 Very low risk taker.
- 3 Low risk taker.
- 4 Average risk taker.
- 5 High risk taker.
- 6 Very high risk taker.
- 7 Extremely high risk taker.

2. How easily do you adapt when things go wrong financially?

- 1 Very uneasily.
- 2 Somewhat uneasily.
- 3 Somewhat easily.
- 4 Very easily.

3. When you think of the word "risk" in a financial context, which of the following words comes to mind first?

- 1 Danger.
- 2 Uncertainty.
- 3 Opportunity.
- 4 Thrill.

4. Have you ever invested a large sum in a risky investment mainly for the "thrill" of seeing whether it went up or down in value?

- 1 No.
- 2 Yes, very rarely.
- 3 Yes, somewhat rarely.
- 4 Yes, somewhat frequently.
- 5 Yes, very frequently.

5. If you had to choose between more job security with a small pay increase and less job security with a big pay increase, which would you pick?

- 1 Definitely more job security with a small pay increase.
- 2 Probably more job security with a small pay increase.
- 3 Not sure.
- 4 Probably less job security with a big pay increase.
- 5 Definitely less job security with a big pay increase.

6. When faced with a major financial decision, are you more concerned about the possible losses or the possible gains?

- 1 Always the possible losses.
- 2 Usually the possible losses.
- 3 Usually the possible gains.
- 4 Always the possible gains.

7. How do you usually feel about your major financial decisions after you make them?

- 1 Very pessimistic.
- 2 Somewhat pessimistic.
- 3 Somewhat optimistic.
- 4 Very optimistic.

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8. **Imagine you were in a job where you could choose to be paid salary, commission or a mix of both. Which would you pick?**
- 1 All salary.
 - 2 Mainly salary.
 - 3 Equal mix of salary and commission.
 - 4 Mainly commission.
 - 5 All commission.
9. **What degree of risk have you taken with your financial decisions in the past?**
- 1 Very small.
 - 2 Small.
 - 3 Medium.
 - 4 Large.
 - 5 Very large.
10. **What degree of risk are you currently prepared to take with your financial decisions?**
- 1 Very small.
 - 2 Small.
 - 3 Medium.
 - 4 Large.
 - 5 Very large.
11. **Have you ever borrowed money to make an investment (other than for your home)?**
- 1 No.
 - 2 Yes.
12. **How much confidence do you have in your ability to make good financial decisions?**
- 1 None.
 - 2 A little.
 - 3 A reasonable amount.
 - 4 A great deal.
 - 5 Complete.
13. **Suppose that 5 years ago you bought stock in a highly regarded company. That same year the company experienced a severe decline in sales due to poor management. The price of the stock dropped drastically and you sold at a substantial loss.**
- The company has been restructured under new management and most experts now expect it to produce better than average returns. Given your bad past experience with this company, would you buy stock now?**
- 1 Definitely not.
 - 2 Probably not.
 - 3 Not sure.
 - 4 Probably.
 - 5 Definitely.
14. **Investments can go up and down in value and experts often say you should be prepared to weather a downturn. By how much could the total value of all your investments go down before you would begin to feel uncomfortable?**
- 1 Any fall in value would make me feel uncomfortable.
 - 2 10%.
 - 3 20%.
 - 4 33%.
 - 5 50%.
 - 6 More than 50%.
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15. Assume that a long-lost relative dies and leaves you a house which is in poor condition but is located in a suburb that's becoming popular.

As is, the house would probably sell for \$300,000, but if you were to spend about \$100,000 on renovations, the selling price would be around \$600,000.

However, there is some talk of constructing a major highway next to the house, and this would lower its value considerably.

Which of the following options would you take?

- 1 Sell it as is.
- 2 Keep it as is, but rent it out.
- 3 Take out a \$100,000 mortgage and do the renovations.

16. Most investment portfolios have a mix of investments - some of the investments may have high expected returns but with high risk, some may have medium expected returns and medium risk, and some may be low-risk/low-return. (For example, stocks and real estate would be high-risk/high-return whereas cash and for example treasury bills would be low-risk/low-return.)

Which mix of investments do you find most appealing? Would you prefer all low-risk/low-return, all high-risk/high-return, or somewhere in between?

Please select one of the seven portfolios listed below.

Mix of Investment in Portfolio

Portfolio	High Risk/Return	Medium Risk/Return	Low Risk/Return
<input type="checkbox"/> 1	0%	0%	100%
<input type="checkbox"/> 2	0%	30%	70%
<input type="checkbox"/> 3	10%	40%	50%
<input type="checkbox"/> 4	30%	40%	30%
<input type="checkbox"/> 5	50%	40%	10%
<input type="checkbox"/> 6	70%	30%	0%
<input type="checkbox"/> 7	100%	0%	0%

17. You are considering placing one-quarter of your investment funds into a single investment. This investment is expected to earn about twice the treasury bill rate. However, unlike a treasury bill, this investment is not protected against loss of the money invested.

How low would the chance of a loss have to be for you to make the investment?

- 1 Zero, i.e. no chance of loss.
- 2 Very low chance of loss.
- 3 Moderately low chance of loss.
- 4 50% chance of loss.

18. With some types of investment, such as cash and treasury bills, the value of the investment is fixed. However inflation will cause the purchasing power of this value to decrease.

With other types of investment, such as stocks and real estate, the value is not fixed. It will vary. In the short term it may even fall below the purchase price. However, over the long term, the value of stocks and real estate should certainly increase by more than the rate of inflation.

With this in mind, which is more important to you - that the value of your investments does not fall or that it retains its purchasing power?

- 1 Much more important that the value does not fall.
- 2 Somewhat more important that the value does not fall.
- 3 Somewhat more important that the value retains its purchasing power.
- 4 Much more important that the value retains its purchasing power.

19. In recent years, how have your personal investments changed?

- 1 Always toward lower risk.
- 2 Mostly toward lower risk.
- 3 No changes or changes with no clear direction.
- 4 Mostly toward higher risk.
- 5 Always toward higher risk.

20. When making an investment, return and risk usually go hand-in-hand. Investments which produce above-average returns are usually of above-average risk.

With this in mind, how much of the funds you have available to invest would you be willing to place in investments where both returns and risks are expected to be above average?

- 1 None.
- 2 10%.
- 3 20%.
- 4 30%.
- 5 40%.
- 6 50%.
- 7 60%.
- 8 70%.
- 9 80%.
- 10 90%.
- 11 100%.

21. Think of the average rate of return you would expect to earn on an investment portfolio over the next ten years. How does this compare with what you think you would earn if you invested the money in one-year treasury bill?

- 1 About the same rate as from treasury bills.
- 2 About one and a half times the rate from treasury bills.
- 3 About twice the rate from treasury bills.
- 4 About two and a half times the rate from treasury bills.
- 5 About three times the rate from treasury bills.
- 6 More than three times the rate from treasury bills.

22. People often arrange their financial affairs to qualify for a government benefit or to obtain a tax advantage. However a change in legislation can leave them worse off than if they'd done nothing.

With this in mind, would you take a risk in arranging your affairs to qualify for a government benefit or obtain a tax advantage?

- 1 I would not take a risk if there was any chance I could finish up worse off.
- 2 I would take a risk if there was only a small chance I could finish up worse off.
- 3 I would take a risk as long as there was more than a 50% chance that I would finish up better off.

23. Imagine that you are borrowing a large sum of money at some time in the future. It's not clear which way interest rates are going to move - they might go up, they might go down, no one seems to know.

You could take a variable interest rate that will rise and fall as the market rate changes. Or you could take a fixed interest rate which is 1% more than the current variable rate but which won't change as the market rate changes. Or you could take a mix of both.

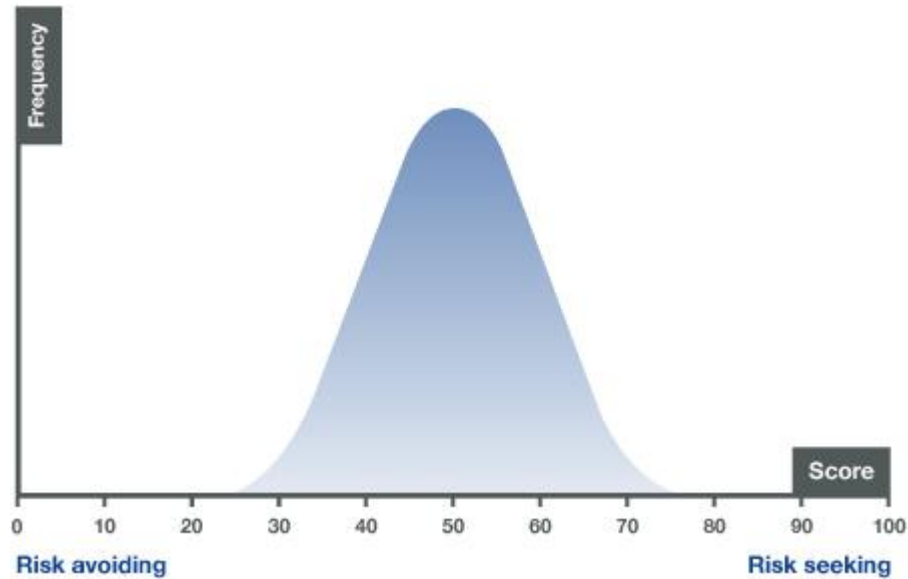
How would you prefer your loan to be made up?

- 1 100% variable.
- 2 75% variable, 25% fixed.
- 3 50% variable, 50% fixed.
- 4 25% variable, 75% fixed.
- 5 100% fixed.

24. Insurance can cover a wide variety of life's major risks – theft, fire, accident, illness, death, etc. How much coverage do you have?

- 1 Very little.
- 2 Some.
- 3 Considerable.
- 4 Complete.

25. This questionnaire is scored on a scale of 0 to 100. When the scores are graphed they follow the familiar bell-curve of the Normal distribution shown below. The average score is 50. Two-thirds of all scores are within 10 points of the average. Only 1 in 1000 is less than 20 or more than 80.



What do you think your score will be? _____

Demographic Questionnaire

Finally, a few questions about yourself.

1. I am

- 1 Male.
- 2 Female.

2. My year of birth is 19_____

3. The highest education level I attained, or the closest equivalent, is

- 1 Did not complete high school.
- 2 Completed high school.
- 3 Trade or diploma qualification.
- 4 University degree or higher qualification.

4. Having in mind income from all sources - work, investment, family and government - into which income bracket does your personal before-tax income fall?

- 1 Under \$80,000.
- 2 \$80,000 - \$99,999.
- 3 \$100,000 - \$199,999.
- 4 \$200,000 - \$299,999.
- 5 \$300,000 - \$399,999.
- 6 \$400,000 or over.

5. Are you married (or in a de facto relationship)?

- 1 Yes.
- 2 No.

6. If "Yes", into which income bracket does your combined before-tax income fall?

- 1 Under \$80,000.
- 2 \$80,000 - \$99,999.
- 3 \$100,000 - \$199,999.
- 4 \$200,000 - \$299,999.
- 5 \$300,000 - \$399,999.
- 6 \$400,000 or over.

7. How many people in your family, beside yourself, do you fully or partially support financially?_____

8. Think of your net worth as being what you own, including your family home and other personal-use assets, minus what you owe. Into which bracket does the value of your net worth fall? (If you are married or have a de facto partner, include only your share of jointly owned assets less your share of what you owe jointly.)

- | | |
|---|---|
| <input type="checkbox"/> 1 Under \$80,000. | <input type="checkbox"/> 6 \$400,000 - \$699,999. |
| <input type="checkbox"/> 2 \$80,000 - \$99,999. | <input type="checkbox"/> 7 \$700,000 - \$999,999. |
| <input type="checkbox"/> 3 \$100,000 - \$199,999. | <input type="checkbox"/> 8 \$1,000,000 - \$2,999,999. |
| <input type="checkbox"/> 4 \$200,000 - \$299,999. | <input type="checkbox"/> 9 \$3,000,000 - \$7,999,999. |
| <input type="checkbox"/> 5 \$300,000 - \$399,999. | <input type="checkbox"/> 10 \$8,000,000 or over. |