

RISK TOLERANCE

On your way home do you drive in the slow lane or the fast lane? Some of you may take the slow lane because you believe that it is safer, while others- who fear the road less- may choose the fast lane simply because the other lane is just too slow. Whatever your choice, the fact remains that each person is different and while the main objective is to get home- each individual has a certain amount of risk they are willing to accept in order to get there. Suffice to say, each person has a different propensity for RISK.

In the world of Finance, an investor's propensity for risk is referred to as his Risk Tolerance. Consequently, Risk Tolerance is a measure of your willingness to accept the risks associated with investments in exchange for higher potential returns. Risk tolerance varies from one investor to the next. Indeed, two individuals with identical investment objectives, time frame, and financial resources, may possess polar opposite risk personalities. Gauging your tolerance for risk requires some knowledge of the financial markets as well as an honest appraisal of what level of risk you are willing to accept.

In this article, I have decided to do something more interactive than usual- So, I am providing you with a short questionnaire that will help you to evaluate your level of risk tolerance. However, before you start this questionnaire, it is important that you think about your Investment goal or objective. This is the first step in any investment process and plays a large role in the level of risk you are willing to accept. It will also help you to answer the questions below more efficiently.

So, what is your RISK Tolerance?

- 1) How old are you?
 - a. 65 and over
 - b. 45 to 64
 - c. 35 to 44
 - d. 25 to 34
 - e. 24 and under

- 2) You plan on using the money you are investing :-
 - a. Within 1 year
 - b. Between 2 to 5 years
 - c. Between 6 to 10 years
 - d. Between 11 to 20 years
 - e. After 21 years or more

- 3) Over the next several years, you expect your annual income to:-
 - a. Decrease substantially
 - b. Decrease moderately
 - c. Stay about the same
 - d. Increase with the pace of inflation
 - e. Grow substantially

- 4) What is your primary objective for your Investment?
 - a. Preservation of Principal
 - b. Current Income
 - c. Growth and Income
 - d. Conservative Growth
 - e. Aggressive Growth

- 5) Your savings, including retirement plans are:-
 - a. Non-existent
 - b. Enough to cover 3 months of Expenses
 - c. Enough to cover 6 months of Expenses
 - d. Enough to cover 9 months of Expenses
 - e. Enough to cover more than 12 months of Expenses

- 6) You are financially responsible for :-
 - a. Both children and spouse
 - b. Parents
 - c. Bills are shared with working spouse and kids that you both support
 - d. Bills are shared with working spouse, no kids
 - e. Only yourself

- 7) How much investing experience do you have?
 - a. None
 - b. Minimal- you've invested in basic vehicles for a short amount of time.
E.g. A savings account at your local bank
 - c. Some- you have invested in annuities and employer sponsored retirement plans for a few years
 - d. Fair Amount- you've invested in a variety of stocks and mutual funds for years and are confident in your investing ability
 - e. Extensive- you've invested in most types of investments and have a profound knowledge of financial markets and strategies

- 8) How far does the market have to fall before you sell off some of your existing holdings in your portfolio?
 - a. Between 5-10%
 - b. Between 10-15%
 - c. Between 15-20%
 - d. Between 20-30%
 - e. Never. I will stay the course

- 9) After you make an investment, you typically feel:
 - a. Regretful
 - b. Confused
 - c. Contented
 - d. Very Satisfied

e. Thrilled

10) You have saved for a big vacation. One week before your departure date, you lose your job, you...

- a. Cancel your vacation
- b. Make plans for a more modest vacation at a beach instead
- c. Go as scheduled, reasoning that job hunting will go better after a good vacation
- d. Extend your vacation without going too much over budget
- e. Extend your vacation and plan a real blowout; e.g. upgrading to first class or making bookings for the Presidential Suite at a Five Star Hotel.

Once you have completed the questionnaire, calculate your score using the following conversions: **a=1, b=2, c=3, d=4, e=5**. Then, using the key below find out which investor profile best matches your risk tolerance.

SCORE	INVESTOR PROFILE
10 to 14	Conservative
15 to 24	Moderately Conservative
25 to 34	Moderate
35 to 44	Moderately Aggressive
45 to 50	Aggressive

Investor Profile Descriptions

Conservative

You are risk adverse! You have an investment time horizon of less than 5 years or you are at or close to retirement and are relying on income from your savings, pension plan or investments to cover your living expenses. You are a cautious investor, with an extremely low tolerance for risk; therefore you're only willing to accept minimal principal fluctuations in return for your current income. You have had no real experience with making investments and as such would rather save than invest.

Moderately Conservative

You fall into pretty much the same category as the conservative investor; however your risk tolerance is moderately low as opposed to extremely low. As such, you are more willing to accept or tolerate principal fluctuations to achieve current income that keeps pace with inflation. You are perplexed by the workings of financial markets and have had had minimal experience in making investments. You tend to be modest when it comes to living life and taking a gamble.

Moderate

You have an investment time horizon between 6 to 10 years and you expect your income to remain about the same or increase with the rate of inflation. If you are in retirement, you desire growth of principal in addition to current income. You have some investment experience and are willing to tolerate periods of negative returns, maybe up to 20%, in

order to achieve some capital appreciation. You feel somewhat contented when you make an investment and will not let one bad day affect your goal for the future.

Moderately Aggressive

Your investment time horizon is more than 10 years and you expect your income to increase over time. If you are in retirement, you want to achieve capital appreciation and understand that the risks associated with your investment. You are an experienced investor and are comfortable with negative returns in the short term because over time you expect to generate higher returns on your overall investment. You feel great satisfaction when you make an investment and don't mind going beyond your limit within reason.

Aggressive

You are a risk taker! and your investment time horizon is more than 10 years and you expect your income to increase over time. You are looking to accumulate and achieve aggressive growth in your investment portfolio in order to achieve extremely high returns. You are a highly experienced investor and are comfortable with negative rates of return and loss of principal during some years. You tend to be excited about making investments and feel comfortable about taking risks in times of high uncertainty.

Matching your Profile to a Portfolio

Once you have determined your investor profile you can then choose your portfolio. Investors who fall under the profile of Conservative to Moderately Conservative can opt for a Conservative Portfolio, which traditionally consists of a ratio of 70% fixed income: 30% equity. Such a portfolio seeks to deliver stable returns by investing a higher percentage in secure investments, with steady income flows; while the investment in more risky assets is used to reduce the impact of inflationary pressures over time, through capital appreciation.

Moderate Investors should go for a more Balanced Portfolio, traditionally- 40% fixed income: 60% equity. This type of portfolio will bring in capital appreciation in addition to income, which can help offset any moderate fluctuations in market value. Thus, the resulting effect of such a portfolio would be greater diversification with moderate returns in long term.

The Moderately Aggressive to Aggressive Investor has higher return expectations and as such should opt for a more risky portfolio. An Aggressive Portfolio would be made up of a higher percentage in more risky assets and as such would traditionally have a ratio of 90% in equity: 10% in fixed income. The primary objective of such a portfolio is long term growth and as such short term fluctuations in the market value is not a major concern. Thus, the majority of assets will be allocated to investments in equity, since this asset class has proven to have the highest returns, when compared to any other class, over the long term.

While the portfolios above can give you a good indication of the different types of asset mixes that would best suit your tolerance, it is also important to note that over time your current risk tolerance will change and so will your investment objectives. For instance, when you do this test today, your investment objective might be to achieve a certain level of growth in principal so that 15 years from now you can afford to send your child to University abroad. You would have most likely fallen under the profile for Moderately Aggressive or Aggressive and chosen an Aggressive Portfolio because you have a long time horizon and you are fairly young. However, let's say you took this test again in 12 years- your risk tolerance would be lower! You would be three years away from your goal and would not be as willing to accept fluctuations in the market as you would have today. Thus you may want to rebalance your portfolio to make it more conservative so that the money that you have invested over the last 12 years has a lesser chance of being lost in the next three years.

Another interesting point to note is the fact that you may have more than one investment objective and each time you take this test, depending on your goal and time horizon, you can fall under a different investor profile. In such a case, you would seek multiple portfolios as your risk tolerance and capacity to accept risk will change in each instance.

So, whether you are investing for retirement, your children's education, your dream home, or maybe all of the above- there is always a portfolio that's right for you! Get in touch with your trusted financial advisor today and choose Your Portfolio!!