

Risk Profiling

Client Name | _____

Date | _____

Risk Profiling is a process that tries to help the financial planner better match the type of investments to the client. In its most simplistic form, it would be irresponsible for a planner to recommend a speculative high technology company to a retiree who had no investment experience and no understanding of the risk to their money implicit in such an investment.

Realistically though, risk assessment is a very qualitative area and one that can change over time, or with education, with the need to accept an investment strategy or with the influence of the media or for a combination of these reasons.

Any discussion of risk has also traditionally been full of generalities and truisms that led to mistakes and misunderstandings. For example, - "shares are risky". What about Commonwealth Bank shares – are they risky?

Often, there may be more important risks than just "investment risk". For example, in an allocated pension, you may be drawing down up to 6% or more of the capital value of the fund. If you elect a "low risk" investment strategy and choose a cash option earning 3.5%pa, the only thing for certain is that you will exhaust your capital earlier and will not be able to maintain the real purchasing power of your income/investment over the long term. Is not the dooming of yourself to a poorer retirement also a major risk to be avoided?

Finally, if you have come to seek the services of a professional financial advisor, then I would assume that you seek our advice on what we believe is best for you. You do not want us to blindly accept your instructions if and when we clearly believe that choice is not in your best interest. If you choose to ignore our advice, that is your right, but you should at least have the benefit of an honest appraisal of what (and why) we believe is in your best interests.

Risk profiling is a process that tries to assess all of these issues and to distill the emotional, academic, experience based biases and "past baggage" we all carry in this regard, into a set of investment recommendations!

To help begin the process of analysis and education, please complete the following risk analysis profile and return it with your completed questionnaire.

Please read the questions below and tick the response that you most relate to

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

- Extremely low risk taker
- Very low risk taker
- Low risk taker
- Average risk taker
- High risk taker
- Very high risk taker
- Extremely high risk taker

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

- Very uneasily
- Somewhat uneasily
- Somewhat easily
- Very easily

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

- Danger
- Uncertainty
- Opportunities
- 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?

- No
- Yes, very rarely
- Yes, somewhat rarely
- Yes, somewhat frequently
- 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?

- Definitely more job security with a small pay increase
- Probably more job security with a small pay increase
- Not sure
- Probably less job security with a big pay increase
- Definitely less job security with a big pay increase

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

- Always the possible losses
- Usually the possible losses
- Usually the possible gains
- Always the possible gains

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

- Very pessimistic
- Somewhat pessimistic
- Somewhat optimistic
- Very optimistic

8. Imagine you were in a job where you could choose whether to be paid a salary, commission or a mix of both. What would you pick?

- All salary
- Mainly salary
- Equal mix of salary and commission
- Mainly commission
- All commission

9. What degree of risk have you taken with your financial decisions in the past?

- Very small
- Small
- Medium
- Large
- Very Large

10. What degree of risk are you currently prepared to take with your financial decisions?

- Very small
- Small
- Medium
- Large
- Very Large

11. Have you ever borrowed money to make an investment (other than your home)?

- No
- Yes

12. How much confidence do you have in your ability to make good financial decisions?

- None
- A little
- A reasonable amount
- A great deal
- Complete

13. Suppose that 5 years ago you bought shares in a highly regarded company. That same year the company experienced a severe decline in sales due to poor management. The price of the shares 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 shares now?

- Definitely not
- Probably not
- Not Sure
- Probably
- Definitely

14. Investments can go up or 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?

- Any fall would make me feel uncomfortable
- 10%
- 20%
- 33%
- 50%
- More that 50%

15. Assume that a long-lost relative dies and leaves you a house which is in poor condition but it 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?

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

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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, shares and property would be high- risk/high returns whereas cash and term deposits 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?

Mix of Investments in Portfolio

	High Risk/Return	Medium Risk/Return	Low Risk/Return
<input type="checkbox"/> Portfolio 1	0%	0%	100%
<input type="checkbox"/> Portfolio 2	0%	30%	70%
<input type="checkbox"/> Portfolio 3	10%	40%	50%
<input type="checkbox"/> Portfolio 4	30%	40%	30%
<input type="checkbox"/> Portfolio 5	50%	40%	10%
<input type="checkbox"/> Portfolio 6	70%	30%	0%
<input type="checkbox"/> Portfolio 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 term deposit rate. However, unlike a term deposit, this investment is not protected against loss of the money invested.

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

- Zero, i.e. no chance of any loss
- Very low chance of loss
- Moderately low chance of loss
- 50% chance of loss

18. With some types of investment, such as cash and term deposits, 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 property, 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 the shares and property 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?

- Much more important that the value does not fall
- Somewhat more important that the value does not fall
- Somewhat more important that the value retains its purchasing power
- Much more important that the value retains its purchasing power

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

- Always toward lower risk
- Mostly toward lower risk
- No changes or changes with no clear direction
- Mostly toward higher risk
- 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?

- None
- 10%
- 20%
- 30%
- 40%
- 50%
- 60%
- 70%
- 80%
- 90%
- 100%

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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 term deposits?

- About the same rate as from term deposits
- About one and a half times the rate from term deposits
- About twice the rate from term deposits
- About two and a half times the rate from term deposits
- About three times the rate from term deposits
- More than three times the rate from term deposits

22. People often arrange their financial affairs to qualify for a government benefit or 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?

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

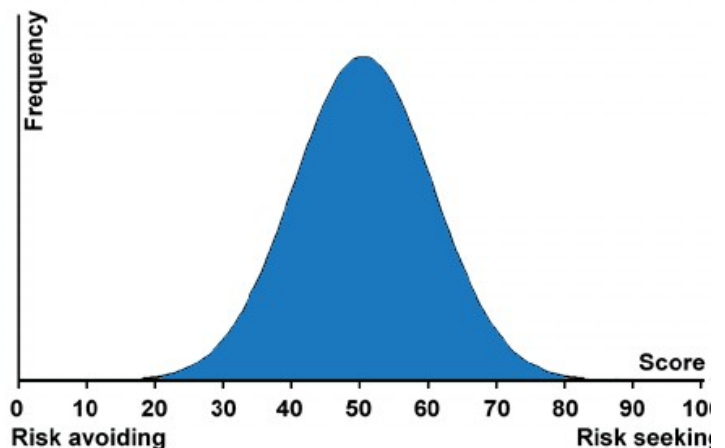
23. Imagine that you are borrowing a large sum of money at some time in the future. It's not clear which way interest rates are going to move – they might go up, they might go down, no one seems to know. You could take a variable interest rate that will rise and fall as the market rate changes. Or you 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?

- 100% variable
- 75% variable, 25% fixed
- 50% variable, 50% fixed
- 25% variable, 75% fixed
- 100% fixed

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

- Very little
- Some
- Considerable
- 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?

Mark your score on the above line and note your score number in this box.

This questionnaire is an internal communication between Segue Financial Services and those of its clients that have authorised financial advice. It is for the private use of those clients and should not be used by other parties. Specifically, it should not form the basis of a recommendation to any parties other than those covered by an authorised Statement of Advice provided by a Segue Adviser. This questionnaire has been devised by FinaMetrica.