Wealth Management Risk Profile Questionnaire

Identifying your risk tolerance

The general definition of risk tolerance is 'the amount of risk an investor is comfortable taking or the degree of variability in investment returns an individual is willing to withstand'. Risk tolerance is an important component in investing.

1. Which of the following best describes your current stage of life?

		Client 1	Client 2	
a.	You have few financial burdens. You are ready to accumulate wealth for future short-term and long-term goals.			9 points
b.	You are preparing for the future by establishing a home. You may or may not have children. You are expecting to have or already have a high purchase rate of household and consumer items.			3 points
c.	You own your own home. You have a mortgage and potentially childcare or other regular costs and maintain only small cash balances.			1 point
d.	You are in your peak earning years and your mortgage is under control. You work and you may or may not have children that are growing up or have left home. You may be ready to start thinking about your retirement years.			5 points
e.	You are preparing for retirement. You own your home and have few financial burdens. You want to ensure you can afford a comfortable retirement.			3 points
f.	You are retired. You rely on existing funds and investments to maintain your lifestyle in retirement. You may already be receiving a government pension and/or superannuation pension.			2 points

2. What is the primary reason you are investing your funds?

		Client 1	Client 2	
a.	Long-term capital growth			7 points
b.	To meet income needs			3 points
c.	Long-term capital growth and income			5 points
d.	For capital security			1 point

3. How secure is your current and future income from your salary, pensions or other investments?

		Client 1	Client 2	
a.	Not secure			1 point
b.	Somewhat secure			3 points
c.	Fairly secure			5 points
d.	Very secure			7 points

4. **What would you estimate your net worth to be, that is total assets excluding the family home less liabilities?**

		Client 1	Client 2	
a.	Less than $250,000			1 point
b.	Between $250,000 and $500,000			3 points
c.	Between $500,000 and $750,000			5 points
d.	Between $750,000 and $1,000,000			7 points
e.	Greater than $1,000,000			9 points

5. **How familiar are you with investment matters?**

		Client 1	Client 2	
a.	Not familiar at all with investments and feel uncomfortable with the complexity.			1 point
b.	Not very familiar when it comes to investments.			2 points
c.	Somewhat familiar. I don't fully understand investments, including the sharemarket.			3 points
d.	Fairly familiar. I understand the various factors which influence investment performance.			5 points
e.	Very familiar. I use research and other investment information to make investment decisions. I understand the various factors which influence investment performance.			7 points

6. **In order to earn a return above the level of bank interest rates you may need to hold investments that go up and down in value (i.e. have volatility). How important is it to you to protect your investment and minimise the prospect of any fall in the value?**

		Client 1	Client 2	
a.	Very important. Protecting my existing investment is my main objective.			1 point
b.	Important, but I'm comfortable for at least a small part of my portfolio to have volatility in order to improve returns over the longer term.			3 points
c.	Somewhat important but I'm prepared to take on a reasonable amount of volatility in order to increase my chance of higher returns over the longer term.			7 points
d.	Not particularly important as I'm comfortable that having exposure to volatility is the best way to maximise returns over the longer term.			9 point

7. **What is your level of reliance on the income generated from the portfolio to meet your needs?**

		Client 1	Client 2	
a.	Nil. I have other income sources.			7 points
b.	Minimal. I have other income sources but the income from the portfolio does help.			5 points
c.	Reasonable. I rely somewhat on the income generated from the portfolio.			3 points
d.	Considerable. I rely heavily on the income generated from the portfolio.			1 point

If you are reliant on the income, what do you anticipate the income amount would be per annum? $

8. How long are you looking at investing your capital before you think you would need to access it?
(Assuming you already have plans in place to meet short-term cashflow and/or emergencies.)

		Client 1	Client 2	
a.	In 2 years or less			1 point
b.	Within 3 - 5 years			3 points
c.	Within 6 - 10 years			5 points
d.	Not for 10+ years			7 points

9. When considering your investments and making investment decisions, do you think about the impact of possible losses or possible gains?

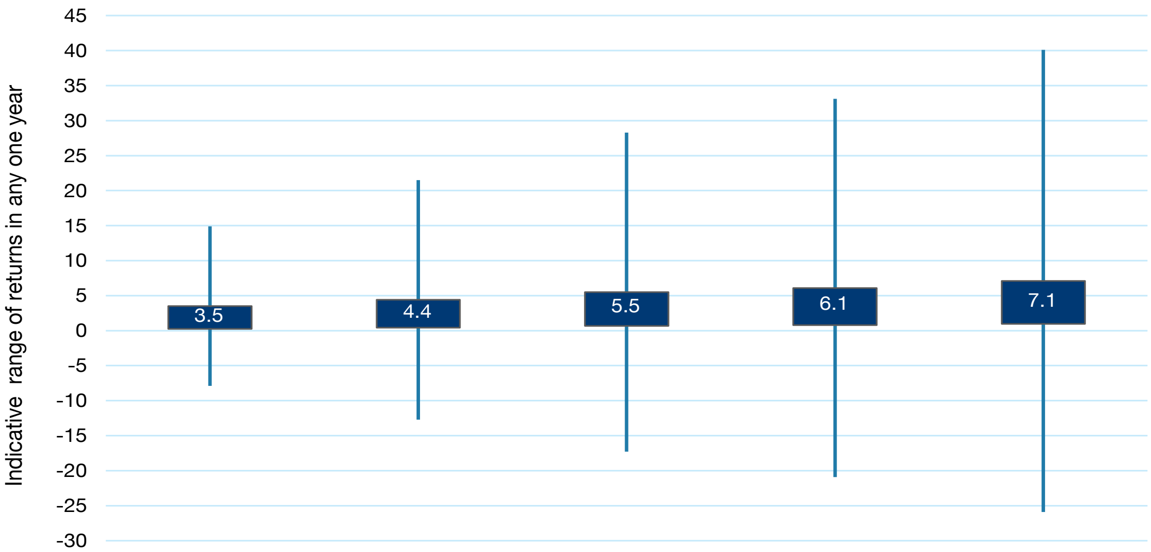
a.	I am always concerned about possible losses.			1 point
b.	I am somewhat concerned about possible losses.			3 points
c.	I usually consider possible gains.			5 points
d.	I always consider possible gains.			7 points

10. Assume you had an initial investment portfolio worth $100,000. If, due to market conditions, your portfolio fell to $85,000, would you:
(If your portfolio has experienced a drop like this, choose the answer that corresponds to your actual behaviour.)

a.	Sell all of the investments? You do not intend to take risks.			1 point
b.	Sell a portion of your portfolio to cut your losses and reinvest into more secure investment assets?			3 points
c.	Hold the investment and sell nothing, expecting performance to improve?			5 points
d.	Invest more funds to lower your average investment price?			7 points

11. **Most portfolios suffer some volatility in returns. The level of volatility will depend on how exposed the portfolio is to growth assets. The greater the exposure is to growth assets, the greater the potential for returns but also the greater the potential for loss. Of the following portfolios which one would you be most comfortable with when it comes to the possibility of losses versus returns?**

		Client 1	**Client 2**	
a.	Portfolio 1 – 25% exposure to growth assets			1 point
b.	Portfolio 2 – 42% exposure to growth assets			3 points
c.	Portfolio 3 – 66% exposure to growth assets			5 points
d.	Portfolio 4 – 79% exposure to growth assets			7 points
e.	Portfolio 5 – 98% exposure to growth assets			9 points



	Portfolio 1	Portfolio 2	Portfolio 3	Portfolio 4	Portfolio 5
Growth allocation	0.25	0.42	0.66	0.79	0.98
Potential loss in one year	-7.9	-12.7	-17.3	-20.9	-25.9
Potential gain in one year	14.9	21.5	28.3	33.1	40.1
Average return	3.5	4.4	5.5	6.1	7.1

Source: Morgans

12. **Thinking about your answer to the previous question, if you now think about your feelings towards choosing actual investments, which one of the following statements best describes you.**

a.	I would prefer investments with little or no fluctuation in value that have a low degree of risk associated with them. I am willing to accept the lower return associated with these investments.			1 point
b.	I prefer to diversify with a mix of investments that have an emphasis on low risk. I am happy to have a small proportion of the portfolio invested in assets that have a higher degree of risk in order to achieve a slightly higher return.			3 points
c.	I prefer to have a spread of investments in a balanced portfolio.			5 points
d.	I prefer to diversify my investments with an emphasis on more investments that have higher returns, but still having a small amount of low risk investments.			7 points
e.	I would select investments that have a higher degree of investment price fluctuation so that I can earn higher long term returns.			9 points

Adviser notes

Are there any extenuating circumstances to consider e.g. divorce, widowed, caring for grandchildren etc.?

Your score

Add up the points you scored for each answer. Based on the total points, you can compare your score with the range of profiles described below.

Total points	**Client 1**		**Client 2**	

Please remember that this questionnaire is designed to help you evaluate your risk profile and that given the answers to the above questions, your risk profile may be in the indicated sector.

Risk capacity/Sensitivity to volatility

Do you have any specific expectations of investment returns?
(i.e. index returns, returns above cash, set percentage figures)

Where risk tolerance considers investment risk, risk capacity considers the amount of risk an investor must take in order to reach his or her financial goals. This involves examining the rate of return for various investments and investment time frames. Risk capacity is just as important as risk tolerance in helping your adviser determine appropriate investment strategies and recommendations.

Risk profile	Defensive	Conservative	Balanced	Assertive	Aggressive
Minimum investing period	2 years	3 years	5 years	7 years	9 years
Portfolio characteristics %					
Growth assets	25	40	65	80	98
Income assets	75	60	35	20	2
Expected long-term returns %					
Total returns	3.5	4.4	5.5	6.1	7.1
Growth	0.8	1.5	2.4	2.9	3.8
Income (including franking credit)	2.7	2.8	3.1	3.2	3.3
Franking credit	0.1	0.2	0.3	0.3	0.4
Risk* (expected chance of a negative return)					
Expected negative year every x years	5.5	4.5	4.3	4.0	3.8
Magnitude of loss over one year % (3 Std Dev)	-7.9	-12.7	-17.3	-20.9	-25.9

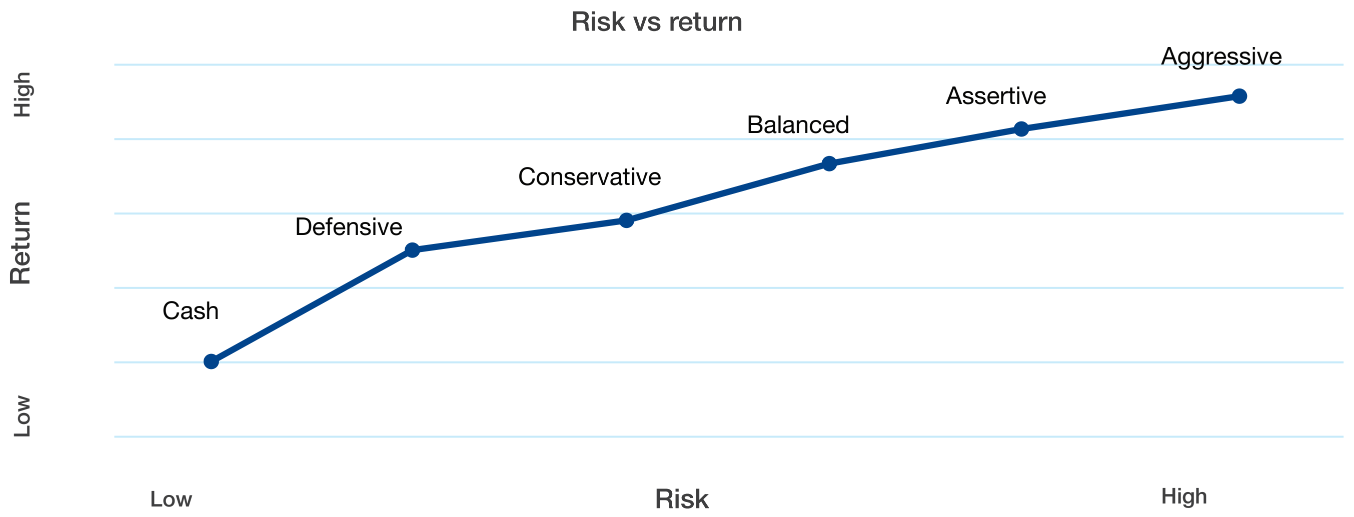
*Analytics are based on long-term assumptions and the normal distribution curve. Losses and gains may occur more often or fall outside the specified ranges more regularly than normal distribution modelling would imply.

Source: Morgans, BMIS

Client assessment

Based on the above portfolio characteristics and estimated risk vs return data, which profile on the following graph do you think best suits you and your investment goals?

Client 1 and Client 2 (if applicable), indicate separately on the following graph where you feel you would be comfortable with a level of risk vs return for your investments.



Source: Morgans

Behaviour of asset classes

The following table outlines how defensive assets such as cash and fixed interest can pay reasonable income (depending on the interest rate environment at the time), but have no growth and therefore are usually a lower risk investment. Shares on the other hand have a higher potential for capital growth and so the risk factor is also higher.

What this tells you is that risk and returns are inextricably linked. In other words, you cannot expect higher returns without having to take higher risk and you cannot expect safety without correspondingly low returns.

Asset class	Income	Capital growth	Tax effectiveness	Risk
Income assets				
Cash	Low	None	None	Low
Australian fixed interest*	Medium	None	None	Low/Medium*
International fixed interest	Low	None	None	Medium
Growth assets				
Australian shares	Medium	High	High	High
International shares	Low	High	Low	High
Property	Medium/High	Medium	Medium	High
Global infrastructure	Medium	Medium	Low	Medium

*Not all fixed interest assets are low risk and some may have the same high risk/return profile that shares do. We refer to listed fixed interest securities such as preference and hybrid securities. Your adviser will explain the characteristics of this particular type of investment as there are additional risk factors you need to be aware of if investing in them.

Source: Morgans

Notes

Risk analysis

Based on your total points from the risk tolerance section, your applicable risk profile would be:

Investor profile	Score	Description
Defensive	0 - 18 points	You are a defensive investor whose priority is the safeguarding of your current investment capital over the desire for increasing potential returns.
Conservative	19 - 39 points	You are a conservative investor primarily seeking income with some potential for capital growth. You prefer a low level of investment value volatility and therefore you are willing to accept lower potential investment returns.
Balanced	40 - 64 points	You are a balanced investor with some understanding of investment market behaviour. You prefer a balance between capital growth and capital security. You are prepared to accept some short-term risk in order to gain longer-term capital growth.
Assertive	65 - 88 points	You are an assertive investor who understands the movement of investment markets. You are most interested in maximising long-term capital growth, although you do not wish to make unbalanced investment decisions. You are happy to take calculated risks in order to maximise long-term capital growth.
Aggressive	89+ points	You are an aggressive investor with a strong bias towards investments with high growth potential due to your investment experience. You are willing to accept higher performance fluctuations in return for potentially higher long-term capital growth. You also have a greater focus on tax-advantaged investments and/or leverage of your assets to further improve capital growth potential.

Results

Risk tolerance

Client 1 Your calculated risk profile based on your answers to the risk tolerance questions is:

Client 2 Your calculated risk profile based on your answers to the risk tolerance questions is:

Risk capacity

Client 1
You identify yourself as a/an

investor according to your selection from the risk/return graph.

Client 2
You identify yourself as a/an

investor according to your selection from the risk/return graph.

Is there a mismatch between risk profiles? Let's discuss.

Client 1

Client 2

From our discussions we will base our advice on the following risk profile:

Client 1

Client 2

Client acknowledgment

I/We hereby acknowledge that the selected risk profile is consistent with my/our investment risk requirements and capacity.
I/We have had the concept of investment risk and risk capacity explained to me/us and am/are happy to proceed on this basis.
Is this profile to be applied across your multiple accounts (if any)? If yes, please list account names.

If no, please complete a separate risk profiling questionnaire for those relevant accounts.

Client 1

Signature

Name

Date

Client 2

Signature

Name

Date