ASSESSING YOUR RISK TOLERANCE

The New York Institute of Finance has developed a questionnaire to help you assess your risk tolerance. Circle what seems to be the most appropriate response for each question. In most cases, there are no right or wrong answers. When you are finished, total your points based on the values in the score key and interpret your risk tolerance based on your total score.

1 In which age group do you fall?

- **A** 30 or under
- **B** 31 to 44
- **C** 45 to 54
- **D** 55 to 64
- **E** 65 or over

2 What is your investment horizon—for how long can you let your money grow?

- **A** More than 20 years
- **B** 15 to 20 years
- **C** 10 to 14 years
- **D** 5 to 9 years
- **E** Under 5 years

3 For how long have you been investing in mutual funds or directly in stocks or bonds?

- **A** More than 10 years
- **B** 5 to 10 years
- **C** 3 or 4 years
- **D** 1 or 2 years
- **E** Less than a year

4 In which range does your household salary fall?

- **A** More than $100,000
- **B** $75,000 to $100,000
- **C** $50,000 to $75,000
- **D** $25,000 to $50,000
- **E** Less than $25,000

5 How many dependents do you have, including grown children and elderly parents, who depend on your financial assistance?

- **A** None
- **B** 1
- **C** 2
- **D** 3 or 4
- **E** 5 or more

6 How do you expect your employment income will change over the next several years?

- **A** I anticipate a steadily growing income.
- **B** I expect a fairly level income.
- **C** I think it will fluctuate widely.
- **D** I anticipate my income will probably trend downward.
- **E** I fear I might lose my job or I plan to retire.

7 Which statement best describes how you plan to add or subtract money from your investment portfolio in the near future?

- **A** I expect to add a significant amount of cash regularly to my portfolio.
- **B** I think I can add only modest amounts of cash on an infrequent basis.
- **C** I do not plan to funnel any more money into my portfolio, but I don't anticipate making any withdrawals either.
- **D** I will withdraw modest sums from my portfolio on a regular basis to help meet living expenses.
- **E** I must take out sizeable amounts of money from my portfolio regularly to meet living expenses.

8 How would you describe your financial "cushion" to meet unexpected emergencies?

A *More than adequate.* I have more than enough cash in a money-market fund or other short-term investments to meet my needs. I may even carry more insurance than I require.

B *Adequate.* I have ample liquid assets. I have enough insurance and my monthly obligations are manageable.

C *Borderline.* I have a modest amount of cash and some insurance. But I may need to dip into my investments or borrow in an emergency.

D *Inadequate.* My reserves are insufficient at the present time.

9 How important is a regular stream of investment income to you?

A *Unimportant.* My goal is to build up a nest egg over the long haul.

B *Somewhat important for peace of mind.* I prefer a modest income from my portfolio even though I don't really need it. I simply feel more comfortable holding investments that generate cash.

C *Important.* Investment income helps make ends meet, but I'm not totally dependent on it.

D *Highly important.* Investment income provides for the majority of my needs. I want investments that produce cash on a highly predictable basis.

10 What's your attitude toward insurance?

A I don't believe in having any more insurance than is absolutely necessary.

B I have adequate coverage, but I buy policies with high deductibles to lower my premiums.

C I have adequate insurance and my deductibles are low.

D I stay well insured because I'm highly adverse to suffering large losses. I spend more for policies with low deductibles because I want maximum coverage.

11 Which statement best describes your knowledge about investing?

A *Highly Knowledgeable.* I have a very good understanding about how the stock and bond markets work, and I spend considerable time keeping up with financial happenings.

B *Somewhat Knowledgeable.* I have a fair comprehension of investing, but I'd like to know more.

C *Minimal Knowledge.* I don't know much about the financial world.

D *Neophyte.* I know virtually nothing about investing and don't find the subject that interesting.

12 Which of the following statements best describes your investment experience?

A *Extensive.* I have invested in a variety of vehicles including stocks, bonds, and mutual funds. I'm a do-it-yourself investor. I have experienced a bear market or two.

B *Average.* I have some experience in mutual funds and stocks. I do my own research but sometimes use the advice of others.

C *Limited.* I have invested in mutual funds and a few stocks, but my expertise is limited and I rely on a financial professional to guide me.

D *Slight.* I mostly stick with savings vehicles such as certificates of deposit, although recently I have begun to participate in a tax-deferred retirement plan through work.

E *Virtually none.* I'm new to the area of investing.

13 How would you react if your portfolio of stocks or stock funds plunged 30 percent in a bear market?

A I wouldn't be upset because I have a long time horizon and could use this as an opportunity to invest more at bargain prices.

B I would be somewhat concerned because a 30 percent paper loss is substantial. I wouldn't throw in the towel and sell though.

C I wouldn't feel comfortable in this situation. I'm not sure what I would do.

D I would probably sell before I lost even more money.

E I would not have invested in stocks in the first place because I can't tolerate the risks.

14 Suppose you can invest $10,000 in one of five portfolios with preset payoffs but you won't know your outcome until five years from now. The two payoffs are equally likely. For example, with pair A, you would invest $10,000 now and in 5 years, you would have an equal chance of getting either $50,000 or $5,000. Which pair do you prefer?

- **A** Payoff of $50,000 or $5,000
- **B** Payoff of $30,000 or $10,000
- **C** Payoff of $25,000 or $12,000
- **D** Payoff of $20,000 or $15,000
- **E** Payoff of $18,000 or $17,000

15 Which of the following statements best describes your investment philosophy?

- **A** I like to keep up with fast-moving investments day to day. These include options, futures, initial public offerings, and volatile funds, and I like to invest using borrowed money.
- **B** I expect my investments to "beat the market." Money managers should have no trouble outperforming market benchmarks such as the Dow Jones Industrial Average, and I think I can do the same by buying individual stocks.
- **C** I recognize that it's very difficult to beat a broad market indicator such as the Standard & Poor's 500 index. I would be happy if my stock investments just matched the market over the long pull.
- **D** My philosophy is to "play it safe" with money-market funds, high-quality bond funds, certificates of deposit, and individual bonds. Stocks are not for me.

Total your points based on the values in the score key.

Risk Tolerance Score Key

Question	A	B	C	D	E
1	10	8	6	3	1
2	10	7	5	3	1
3	7	5	3	1	0
4	8	6	4	2	1
5	7	5	3	2	0
6	6	4	3	2	0
7	6	4	2	1	0
8	6	4	2	0	NA
9	6	4	2	1	NA
10	5	4	3	1	NA
11	4	3	2	0	NA
12	5	3	2	1	0
13	6	4	2	1	0
14	8	6	4	2	1
15	6	4	2	0	NA

TOTAL = ___________ POINTS

Your score can be interpreted as follows:

71 – 100 Above-Average Risk Tolerance

Individuals scoring in the upper end of this range have significantly greater tolerance than those at the lower end, but people in both situations should put stocks and stock funds at the core of their portfolios.

46 – 70 Average Risk Tolerance

Again, there is a large difference between those at the extreme ends of the range, but all investors in this second category should make at least some use of stocks or stock funds.

21 – 45 Low Risk Tolerance

Many in this range may be older individuals who perhaps lack adequate financial resources or investment experience. If possible, they should maintain a small footing in stock investments in an attempt to stay ahead of inflation.

20 or less Extremely Low Risk Tolerance

People scoring this low are probably too conservative to enter the stock market.

Your age is often the single most important determinant of your asset allocation, so consider the following age-specific guidelines as rough rules of thumb:

- Conservative investors with a fairly low risk tolerance should consider a stock allocation percentage equal to 100 minus their age. These people might split the balance—equal to their age—between cash and bonds. For example, a conservative 30-year-old would have 70 percent in stocks and 30 percent in bond and money market funds.
- Moderate investors might boost their stock allocation percentage to 110 minus their age. So a moderate 40-year-old would have a 70/30 split in favor of stocks and stock funds.
- Aggressive investors with a high risk tolerance could use 120 minus their age as a target. A bold 50-year-old would have 70 percent in the stock market.

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