risk tolerance

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Risk Tolerance Questionnaire

Different investors have different risk tolerances. Much of the difference stems from time horizon. That is, someone with a short investment time horizon is less able to withstand losses. The remainder of the difference is attributable to the individual's appetite for risk.

Volatility can be nerve-wracking for many people, and they are more comfortable when they can avoid it. However, there is a relationship between risk and return. Investors need to recognize this risk/return trade-off.

The following risk tolerance questionnaire is designed to measure an individual's ability (time horizon) and willingness (risk aversion) to accept uncertainties in their investment's performance.

Please answer the following questions to help your advisor establish your current risk profile. Once it's completed, your advisor can use the outcome to recommend which of the available asset allocation models is most appropriate for you.

Answer Eight Key Questions

Time Horizon

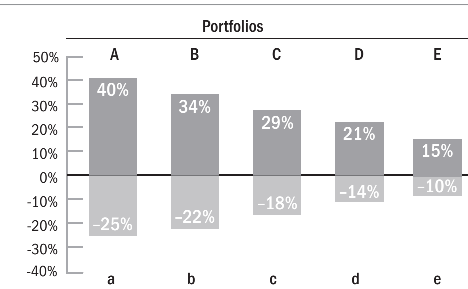
Question	Answer	Response	Score
1. When do you expect to begin withdrawing money from your investment account?	a. Less than 1 year	a	0
	b. 1 to 2 years	b	1
	c. 3 to 4 years	c	3
	d. 5 to 7 years	d	7
	e. 8 to 10 years	e	9
	f. 11 years or more	f	11
2. Once you begin withdrawing money from your investment account, how long do you expect the withdrawals to last?	a. I plan to take a lump sum distribution	a	0
	b. 1 to 4 years	b	2
	c. 5 to 7 years	c	4
	d. 8 to 10 years	d	5
	e. 11 years or more	e	6

Risk Aversion

Question	Answer	Response	Score
3. Which of these choices best reflects your attitude toward inflation and risk?	a. My main goal is to avoid loss, even though I may only keep pace with inflation.	a	0
	b. My main goal is to earn slightly more than inflation, while taking on a low level of risk.	b	6
	c. My main goal is to increase my portfolio's value. Therefore, I am willing to accept short-term losses, but I am not comfortable with extreme performance shifts that may be experienced in the most aggressive investment options.	c	11
	d. My main goal is to maximize my portfolio value, and I am willing to take on more extreme levels of risk and performance shifts in my portfolio to do so.	d	17

Risk Aversion continued

Question	Answer	Potential Best Case Result ($)	Probable Result ($)	Potential Worst Case Result ($)	Response	Score
4. The table to the right presents a potential best case result, probable result and potential worst case result of five sample portfolios over a **one-year** period with an initial $10,000 investment. Understanding the potential upsides and downsides of each portfolio, which portfolio would you prefer to hold?	a. Portfolio A	$11,538	$10,419	$9,019	a	0
	b. Portfolio B	$12,121	$10,535	$8,639	b	4
	c. Portfolio C	$12,855	$10,648	$8,158	c	9
	d. Portfolio D	$13,413	$10,719	$7,805	d	13
	e. Portfolio E	$13,974	$10,776	$7,462	e	17

Question	Answer	Response	Score
5. Investing involves a trade–off between risk and return. Which statement best describes your investment goals?	a. **Protect the value of my account.** In order to minimize the chance for loss, I am willing to accept the lower long–term returns provided by conservative investments.	a	0
	b. **Keep risk to a minimum** while trying to achieve slightly higher returns than the returns provided by investments that are more conservative.	b	6
	c. **Focus more on the long-term investment returns.** Long-term growth is equally as important as managing portfolio risk.	c	11
	d. **Maximize long–term investment returns.** I am willing to accept large and sometimes dramatic short-term fluctuations in the value of my investments.	d	17
6. Historically, markets have experienced downturns, both short–term and prolonged, followed by market recoveries. Suppose you owned a well–diversified portfolio that fell by 20% (i.e., $1,000 initial investment would now be worth $800) over a short period, consistent with the overall market. Assuming you still have 10 years until you begin withdrawals, how would you react?	a. I would change to options that are **more aggressive**.	a	16
	b. **I would not change** my portfolio.	b	10
	c. I would **wait at least one year** before changing to options that are more conservative.	c	5
	d. I would **immediately change** to options that are more conservative.	d	0
7. The graph to the right shows the hypothetical best and worst results of five sample portfolios over a **one–year** holding period. Note that the portfolio with the highest upside also has the largest downside. Which of these portfolios would you prefer to hold?		a	16
		b	13
		c	9
		d	5
		e	0
8. I am comfortable with investments that may frequently experience large declines in value if there is a potential for higher returns. Does this describe you?	a. Strongly disagree	a	0
	b. Disagree	b	9
	c. Agree	c	17

Calculate Your Risk Tolerance Score

Time Horizon Score

Add the Time Horizon scores from questions 1 and 2. Your total score will determine your Time Horizon score, which is located on the horizontal axis in the scoring grid below.

Time Horizon Score = ____________

Risk Aversion Score

Add the Risk Aversion scores from questions 3 through 8. Your total score will determine your Risk Aversion score, which is located on the vertical axis in the grid.

Risk Aversion Score = ____________

Select a Risk Profile

To use the scoring grid, find your Time Horizon score on the horizontal axis and your Risk Aversion score on the vertical axis. The intersection of these two points is your recommended Risk Profile.

	Time Horizon Score				
Risk Aversion Score	1–2	3–5	6–8	9–10	11+
0–14	Conservative	Conservative	Conservative	Conservative	Conservative
15–38	Conservative	Conservative–Plus	Conservative–Plus	Conservative–Plus	Conservative–Plus
39–64	Conservative	Conservative–Plus	Moderate	Moderate	Moderate
65–88	Conservative	Conservative–Plus	Moderate	Moderate–Plus	Moderate–Plus
89–100	Conservative	Conservative–Plus	Moderate	Moderate–Plus	Aggressive

Note: If you have a Time Horizon score of zero, or are not comfortable with market-based investment risks, even the most conservative portfolio may not be an appropriate investment option. Please speak to your financial professional before selecting a Risk Profile.

My Risk Profile

Check one of the following:

☐ Conservative ☐ Conservative-Plus ☐ Moderate ☐ Moderate-Plus ☐ Aggressive

Check one of the following:

☐ I elect to base my Risk Profile upon the results of this questionnaire.

☐ Although the results suggest the ______________________ Risk Profile, for the purposes of this goal, I've elected to have the ______________________ Risk Profile.

Notes:

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Client Name

____

Client Signature Date

The Risk Tolerance Questionnaire presented is available through a license agreement between Ibbotson Associates, Inc. and AXA Financial, Inc. Its sole purpose is to assist you in determining your general attitudes toward investment risk. This questionnaire does not consider all factors necessary in making an investment decision (e.g., personal and financial information and investment objective). In no way should this questionnaire be viewed as advice or establishing any kind of advisory relationship with Ibbotson Associates. Ibbotson Associates does not endorse and/or recommend any specific financial product that may be used in conjunction with the asset allocation models that are presented and is not acting in the capacity of advisor to individual investors. Please consult with your Financial Professional and obtain the financial product's prospectus (or its equivalent) and read it carefully prior to investing. Ibbotson Associates is a registered investment advisor and wholly owned subsidiary of Morningstar, Inc. Ibbotson Associates is not affiliated with AXA and its family of companies.

Risk Profile Definitions

The **Conservative** investor is generally very sensitive to short-term losses. The Conservative investor's aversion to short-term losses could compel them to sell their investment and hold a zero risk investment if losses occur. The Conservative investor would accept lower long-term returns in exchange for smaller and less frequent changes in portfolio value.

The **Conservative-Plus** investor is generally sensitive to short-term losses. The Conservative-Plus investor's aversion to losses could compel them to shift into a more stable investment if significant short-term losses occur. The Conservative-Plus investor is usually willing to accept somewhat lower returns in order to assure greater safety of his or her investment.

The **Moderate** investor is somewhat concerned with short-term losses and may shift to a more stable option in the event of significant losses. The safety of investment and return are typically of equal importance to the Moderate investor.

The **Moderate-Plus** investor is generally willing to accept high risk and chance of loss in order to achieve higher returns on his or her investment. Significant losses over an extended period may prompt the Moderate-Plus investor to shift to a less risky investment.

The **Aggressive** investor generally aims to maximize long-term expected returns rather than to minimize possible short-term losses. An Aggressive investor values high returns and can tolerate both large and frequent fluctuations in portfolio value in exchange for a higher return over the long run.

Not all investment products offer all risk profiles.

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