TFSA Risk Tolerance Questionnaire

This questionnaire is designed to measure your risk tolerance.

Risk tolerance is a measure of your attitudes and perceptions towards the uncertainties associated with investing.

- A risk-averse investor is less willing to accept the risk of loss and is therefore comfortable with lower returns on their investment; and conversely
- A risk-tolerant investor is willing to accept a greater risk of loss in exchange for potentially higher investment returns.

Risk tolerance is only one part of the broader financial planning process. Your financial planner will determine the most appropriate portfolio based on your ability to take risk (i.e. risk capacity), financial objectives, financial situation and particular financial needs, while taking the outputs from this questionnaire into account.

This questionnaire does not take into account your risk capacity, financial objectives, financial situation or particular financial needs.

Client/s Name

Client 1 First Name

Client 1 Surname

Client 2 First Name

Client 2 Surname

Risk Tolerance

1 Any investment requires taking some level of risk. There are going to be times when the value of your investment rises and falls. Over the next year, is there an amount you cannot afford to have fall in value? For example, you may require funds to make a purchase or payment.

	Client 1	Client 2
A. No	○	○
B. Yes	○	○

If Yes, please specify the amount $

2 The graph shows the potential one-year performance of six investment portfolios. The green bars show the maximum return, while the blue bars show the loss each portfolio could experience.

Which of these portfolios would you prefer?
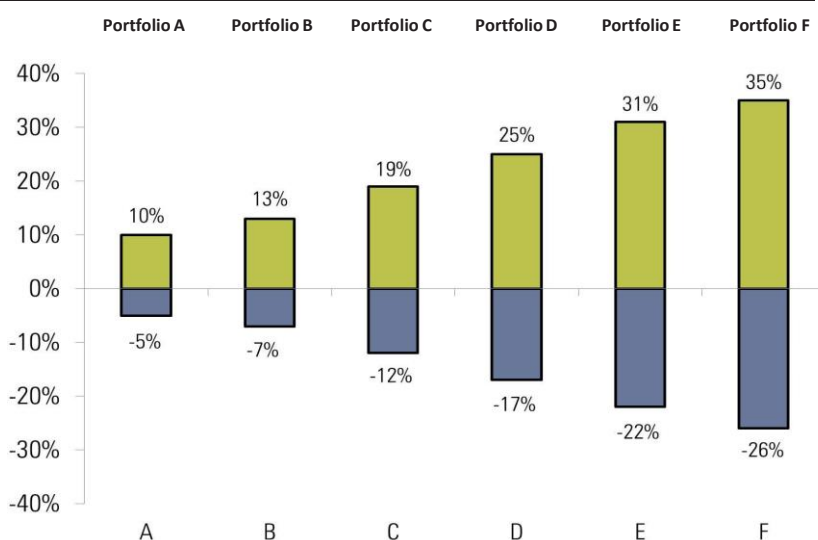
Note: Actual portfolio outcomes could be outside these ranges

	Client 1	Client 2
A. Portfolio A	○	○
B. Portfolio B	○	○
C. Portfolio C	○	○
D. Portfolio D	○	○
E. Portfolio E	○	○
F. Portfolio F	○	○

3 Investment markets go up and down. If your diversified investment portfolio fell by 20%, how would you react?

	Client 1	Client 2
A. I would **not** change my portfolio.	○	○
B. I would **wait at least one year** before changing to options that are more conservative.	○	○
C. I would **wait at least three months** before changing to options that are more conservative.	○	○
D. I would **immediately change** to options that are more conservative.	○	○

4 For many investors, the possibility of losing money is a key concern. How do you feel about investment losses?

		Client 1	Client 2
A.	Investment losses make me very uncomfortable. I check my investments often, so I can sell quickly if they begin to lose money.	◯	◯
B.	Investment losses make me uncomfortable, but not uncomfortable enough to sell immediately. If losses occur over several months, I would probably sell.	◯	◯
C.	Investment losses in the short-term do not bother me. I would wait an entire year before making changes.	◯	◯
D.	I understand that investments can have losses, but also that I have a better chance of reaching my investment goals by sticking to the strategy over the long term. I would not make changes.	◯	◯

5 Which of the following choices best reflects your attitude toward inflation and risk?

		Client 1	Client 2
A.	I wish to avoid loss, even though I may only keep pace with inflation.	◯	◯
B.	I wish to earn slightly more than inflation, while taking on a low level of risk.	◯	◯
C.	I wish to increase investment returns and can accept short-term losses. However, I am not comfortable with large losses that may be experienced with high risk investments.	◯	◯
D.	I wish to maximise investment returns, and am willing to accept the large potential loss associated with pursuing high returns.	◯	◯

6 Most investments go up and down. If your portfolio incurred a loss during any one year, would you sell down your portfolio?

		Client 1	Client 2
A.	Only if the investment loses 5%	◯	◯
B.	Only if the investment loses 10%	◯	◯
C.	Only if the investment loses 15%	◯	◯
D.	Only if the investment loses 20%	◯	◯
E.	Only if the investment loses 25%	◯	◯
F.	I would not sell despite any loss.	◯	◯

7 Investing involves a trade-off between return and risk. Investments with higher returns generally have higher risk (i.e. chance of loss). Investments with lower returns generally have lower risk or chance of loss. Which of the following statements best describes your attitude to risk?

		Client 1	Client 2
A.	I am willing to accept lower returns to limit my chance of loss.	◯	◯
B.	I am willing to bear some risk and chance for loss to achieve higher returns, but prefer most of my portfolio to be invested in investments with low return/risk.	◯	◯
C.	I am willing to accept moderate risk to achieve higher returns. Minimising risk and maximising return are equally important to me.	◯	◯
D.	I am willing to accept high risk to achieve high returns on my investments.	◯	◯
E.	I am only concerned with maximising investment returns. I am not concerned with risk or loss and will accept significant fluctuations in my portfolio.	◯	◯

8 The table shows the potential value of six sample portfolios after one year. The investment is $100,000 at the beginning of the year. The table shows the hypothetical best case, expected value and worst case scenario.

Which portfolio would you prefer to hold?

	Portfolio A	Portfolio B	Portfolio C	Portfolio D	Portfolio E	Portfolio F
Hypothetical Best Case ($)	110,000	113,000	119,000	125,000	131,000	135,000
Expected Value ($)	104,500	105,100	105,900	106,600	107,100	107,500
Hypothetical Worst Case ($)	95,000	93,000	88,000	83,000	78,000	74,000

Note: Actual portfolio outcomes could be outside these ranges.

	Client 1	Client 2
A. Portfolio A	○	○
B. Portfolio B	○	○
C. Portfolio C	○	○
D. Portfolio D	○	○
E. Portfolio E	○	○
F. Portfolio F	○	○

Scoring System

Risk Tolerance Score

Question 2	Question 3	Question 4	Question 5	Question 6	Question 7	Question 8
A. 0	A. 14	A. 0	A. 0	A. 0	A. 0	A. 0
B. 2	B. 8	B. 4	B. 4	B. 2	B. 3	B. 2
C. 4	C. 4	C. 8	C. 8	C. 4	C. 5	C. 4
D. 5	D. 0	D. 14	D. 14	D. 5	D. 8	D. 5
E. 8				E. 8	E. 16	E. 8
F. 14				F. 14		F. 14

Combining the Scores

There are seven potential risk profiles/outcomes:

a No suitable profile - client best suited to a cash deposit account
a Defensive
a Conservative
a Balanced
a Growth
a High Growth
a High Growth Plus

Summary Scoring Grids

The risk tolerance score can be matched to the relevant profile in the table below.

Risk Tolerance Score	
1–11	Defensive
12–29	Conservative
30–44	Balanced
45–59	Growth
60–74	High Growth
75–100	High Growth Plus

Additional Adviser Notes

a **Question 1 is not scored.** If the client cannot afford for an amount to fall in value over the next year, that amount should be invested in a cash account or equivalent.

a **If an investor has a risk tolerance score of zero**, a cash account should be considered.

a **The scores for questions 2 and 8 should be the same.** If not, then the questionnaire should be revisited with the client.

Custom Risk Profile

After completing the questionnaire if for some reason you want to deviate from the risk profile result you can use this section to create your own custom risk profile. The reason for change should be clearly documented below.

Client 1

Custom Risk Profile

Basis for Custom Risk Profile

Client 2

Custom Risk Profile

Basis for Custom Risk Profile

Risk Profiles & Long-Term Asset Allocations

Risk Profile	Defensive	Conservative	Balanced	Growth	High Growth	High Growth Plus
Minimum Investment Period	2 years	3 years	5 years	7 years	9 years	10 years

Portfolio Characteristics %

	Defensive	Conservative	Balanced	Growth	High Growth	High Growth Plus
Growth Assets	15	30	50	70	85	95
Defensive Assets	85	70	50	30	15	5

Long-Term Asset Allocation %

	Defensive	Conservative	Balanced	Growth	High Growth	High Growth Plus
Australian Shares	5	9	15	21	28	33
International Shares (50% Hedged)	6	10	22	31	37	42
Australian Property Securities	4	5	6	6	7	8
International Property Securities	0	0	0	3	3	3
Global Infrastructure (Hedged)	0	3	3	4	5	5
Diversified Alternatives	0	6	8	10	10	8
Australian Bonds[1]	30	24	18	11	6	0
International Bonds (Hedged)[1]	19	15	10	5	0	0
Cash	36	28	18	9	4	1

Returns %	Defensive	Conservative	Balanced	Growth	High Growth	High Growth Plus
Objective	CPI + 0.75	CPI + 1.0	CPI + 2.5	CPI + 3.5	CPI + 4.0	CPI + 4.5
Expected Long-Term Return						
Total	4.5	5.1	5.8	6.6	7.1	7.5
Income	3.9	3.6	3.3	3.1	3.0	3.0
Growth	0.6	1.5	2.5	3.5	4.1	4.5

Projected wealth level of $100,000 invested over a decade (in dark blue) and the likely range of outcomes[2]

$600,000

	$500,000				446,640	507,202
	$400,000			371,934		
	$300,000		294,826			
	203,069	234,440		188,845	198,589	205,194
	$200,000					
	155,736	**164,268**	**176,558**			
	$100,000					
	125,862	126,178	118,070	107,374	96,112	89,875
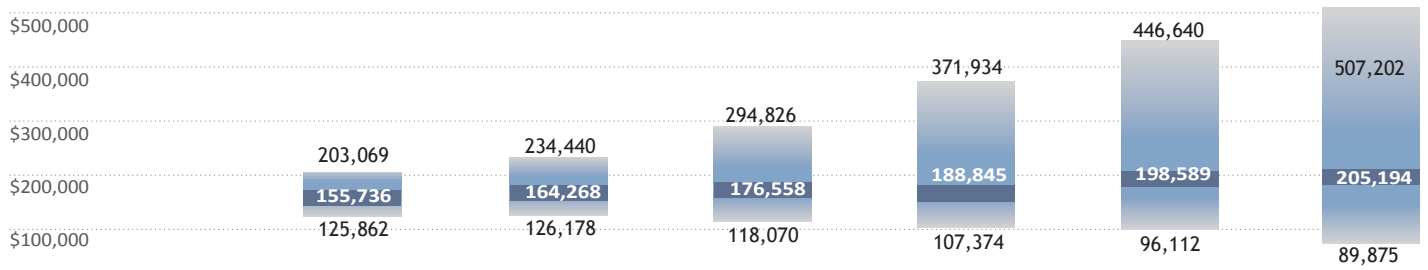
Projected Range of Returns % pa[2]

1 year	-4.2 to 13.7	-6.5 to 17.4	-11.5 to 24.4	-17.3 to 32.0	-21.9 to 38.0	-25.2 to 42.3
5 years	1.3 to 8.7	0.6 to 10.3	-0.6 to 13.5	-2.1 to 17.0	-3.6 to 19.6	-4.7 to 21.2
10 years	2.3 to 7.3	2.4 to 8.9	1.7 to 11.4	-0.7 to 14.0	-0.4 to 16.1	-1.1 to 17.6

Risk[2]	Defensive	Conservative	Balanced	Growth	High Growth	High Growth Plus
Expected number of negative years in 20 years	1.7	2.4	3.6	4.4	4.9	5.2

1. Includes inflation-linked bonds.
2. 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.

Expected Long-Term Return and Volatility Assumptions

| Asset Class	Total Expected Return %	Standard Deviation %
Australian Shares	7.75	18.0
International Shares (50% Hedged)	7.75	15.0
Australian Property Securities	7.00	15.0
International Property Securities	6.50	17.0
Global Infrastructure (Hedged)	7.00	13.0
Diversified Alternatives	6.25	7.0
Australian Bonds[1]	4.40	5.0
International Bonds (Hedged)[1]	4.30	6.0
Cash	3.50	1.5

Asset Allocation Ranges %	Defensive	Conservative	Balanced	Growth	High Growth	High Growth Plus
Australian Shares	0–15	0–30	0–45	0–60	0–65	0–70
International Shares (50% Hedged)	0–15	0–30	0–45	0–60	0–65	0–70
Australian Property Securities	0–10	0–15	0–20	0–25	0–30	0–30
International Property Securities	0–10	0–15	0–20	0–25	0–30	0–30
Global Infrastructure (Hedged)	0–10	0–10	0–15	0–20	0–20	0–20
Diversified Alternatives	0–20	0–25	0–25	0–25	0–25	0–20
Australian Bonds[1]	0–80	0–45	0–40	0–30	0–25	0–15
International Bonds (Hedged)[1]	0–80	0–45	0–40	0–30	0–25	0–15
Cash	10–90	10–70	0–55	0–45	0–35	0–20

1. Includes inflation-linked bonds.

Risk Profile Definitions

Risk Profile	Growth/Defensive Split %	Risk Profile Definition
Defensive		The Defensive Risk Profile is designed for investors with a time horizon of two years who seek the potential for a consistent income return by investing in a diversified portfolio of predominantly income asset classes, with a small proportion of growth asset classes. A low risk of capital loss can be expected, but overall returns are likely to be lower.

15/85

15
85
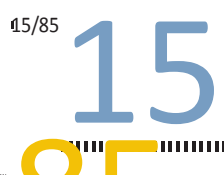
Conservative		The Conservative Risk Profile is designed for investors with a time horizon of three years who seek the potential for a consistent income return and a modest amount of capital growth, by investing in a diversified portfolio of income and growth asset classes, with an emphasis on income asset classes. A low to medium risk of capital loss can be expected.

30/70

30
70

95/5
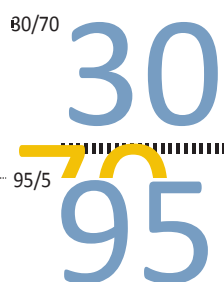
Balanced		The Balanced Risk Profile is designed for investors with a time horizon of five years who seek the potential for a moderate amount of capital growth along with a consistent income return, by investing in a diversified portfolio of

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Risk Profile and Client Acknowledgement

Suggested Risk Profile

Client 1

Client 2

Client Acknowledgement and Declaration

I/we acknowledge the suggested risk profile noted above has been generated from the answers I/we provided to questions asked in this risk tolerance questionnaire. I/we declare that the answers provided are true and accurate to the best of my/our knowledge.

I/we acknowledge that this questionnaire does not consider my/our risk capacity, financial objectives, financial situation or particular financial needs and the suggested risk profile is itself insufficient information to determine the most appropriate portfolio for my/our financial objectives, financial situation and particular financial needs

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Client 1 Signature

Client 2 Signature

Date of Completion

Date of Completion

Adviser Acknowledgement and Declaration

I declare that the suggested risk profile noted above has been determined by me based on the answers provided by the client to this risk tolerance questionnaire.

I acknowledge that this risk tolerance questionnaire does not consider the client's risk capacity, financial objectives, financial situation or particular financial needs and the suggested risk profile is itself insufficient information to determine the most appropriate portfolio for the client's financial objectives, financial situation and particular financial needs.

Adviser Signature

Date of Completion