

PERSONAL FINANCIAL PLANNING



Lashley Financial and General Services Inc
#90 Palm Court II
Fortescue
St Philip
Tel: 423 6203
Fax: 423 3876
e-mail: lfg@caribsurf.com

RISK TOLERANCE

This refers to the degree of uncertainty that an investor can handle in regards to a negative change in the value of their portfolio. An investor's risk tolerance varies according to a number of factors such as age, income requirements, investment knowledge, financial goals, attitude to risks and resources. For example, a 70-year-old retired widow would generally have a lower risk tolerance than a single 30-year-old executive.

Answer the following questions "Yes" or "No"

	Yes	No
Investing is too difficult to understand.	<input type="checkbox"/>	<input type="checkbox"/>
I am more comfortable putting my money in a bank account.	<input type="checkbox"/>	<input type="checkbox"/>
When I think of the word "risk", the term "loss" immediately comes to mind.	<input type="checkbox"/>	<input type="checkbox"/>
Making money in stocks and bonds is based on luck.	<input type="checkbox"/>	<input type="checkbox"/>
In terms of investing, safety is more important than returns.	<input type="checkbox"/>	<input type="checkbox"/>

Answer the following questions "Yes" or "No" based on your knowledge

	Yes	No
If you thought that someone who had loaned you money was not fair, you would ask the credit union for help.	<input type="checkbox"/>	<input type="checkbox"/>
Both employees and employers pay into National Insurance.	<input type="checkbox"/>	<input type="checkbox"/>
Higher insurance deductibles lead to lower insurance premiums.	<input type="checkbox"/>	<input type="checkbox"/>
The interest rate charged on major credit cards is set by the Central Bank.	<input type="checkbox"/>	<input type="checkbox"/>
A stock is an interest bearing security that pays interest at the discretion of the company's board of directors.	<input type="checkbox"/>	<input type="checkbox"/>
A mutual fund is an investment company that raises money from shareholders and invests in securities.	<input type="checkbox"/>	<input type="checkbox"/>
Over a period of 20 years, you are more likely to make money than lose money in the stock market.	<input type="checkbox"/>	<input type="checkbox"/>
During times of inflation, it is more expensive to borrow money.	<input type="checkbox"/>	<input type="checkbox"/>

Indicate your level of agreement with the following statements by checking the most appropriate box on the right.

	Strongly Disagree		Strongly Agree	Don't Know
1. Expected Return: Given historical returns on different kinds of investments, my desired level of investment return is above average and I am willing to bear an above-average level of investment risk.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Holding Period: I am willing to maintain investment positions over a reasonably long period of time (generally considered at least five years or more).	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Ease of Management: I want to be very actively involved in the monitoring and decision-making required to manage my investments.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Dependents: There are no or few dependents that rely on my income and my investment portfolio for support.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Income Source: My major source of income is adequate, predictable and steadily growing.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Investment Experience: I have prior investment experience with stocks, bonds and other investments. I understand the concept of investment risk.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. Debt/Credit: My debt level is low and my credit history is excellent.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

RISK TOLERANCE

Select the option which best fits your preference and approach.

Inflation, the general rise in prices for goods and services, can significantly reduce the purchasing power of your investments over time. Historically, investments with the highest possibility of exceeding inflation also have the widest swings in value (volatility). Which of the following best describes your view about investing, with particular attention to inflation?

- a I prefer stable returns that avoid loss, realising that I may only keep pace with or slightly exceed inflation
- b I prefer stable returns but it is still important to exceed inflation.
- c I prefer a rate of return that exceeds inflation by a substantial amount, but am not comfortable with extreme fluctuations in value or chance of loss.
- d I want to maximise the rate of return on my investments and am willing to accept large fluctuations in value or the chance of loss.

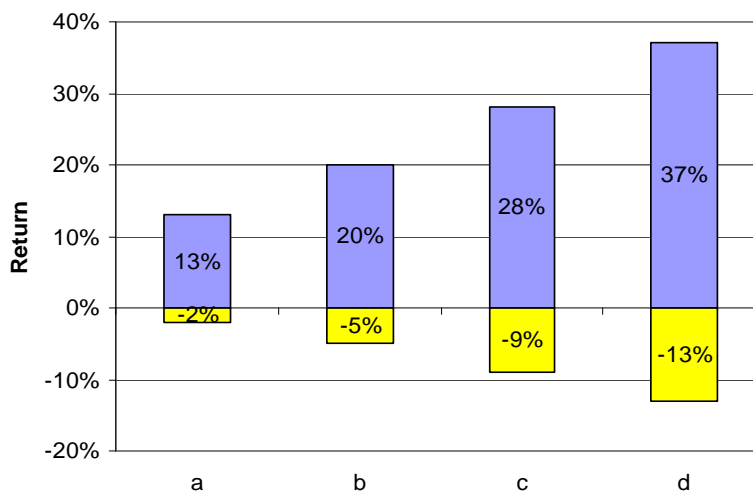
Assume that over the past year the value of your well-diversified portfolio declined by 20%, despite years of strong performance. How would you react?

- a I would not change my portfolio
- b I would wait at least a year longer before changing to more conservative options.
- c I would wait at least 3 months before changing to more conservative options.
- d I would change immediately to more conservative options.

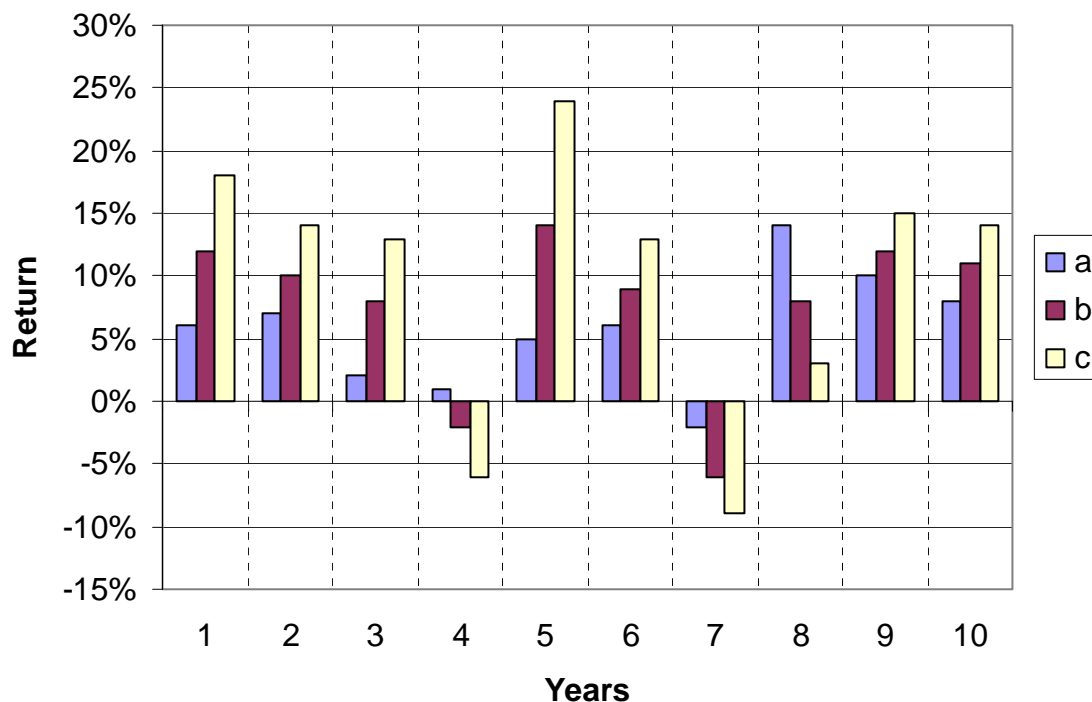
The following statements describe the potential increase in value of a \$10,000 investment in four hypothetical portfolios as well as the frequency of loss. Which portfolio would you invest in?

	<u>Potential value</u>	<u>Probability of a negative return</u>
a	\$ 10,600	One out of every 8 years
b	\$ 10,900	One out of every 6 years
c	\$ 11,100	One out of every 5 years
d	\$ 11,400	One out of every 4 years

A portfolio is a basket of different investments. The returns earned by a specific portfolio depend on the mix of investments that make up the portfolio. The graph below shows the probable range of returns (best to worst) of four hypothetical stocks over a one year period. Which of these would you prefer to invest in?



The following graph shows the potential return of three hypothetical portfolios over a ten-year period. Which portfolio's behaviour are you most comfortable accepting for your investment?



Some investors are more willing than others to accept periodic declines in the value of the portfolio as a trade-off for potentially higher long-term returns. Which response best represents your feelings towards the following statement. "I am willing to experience potentially large and frequent declines in the value of my investment if it will increase the likelihood of achieving high long-term returns."

- a Strongly agree
- b Agree
- c Disagree
- d Strongly disagree

Inflation, the general rise in prices for goods and services, can significantly reduce the purchasing power of your investments over time. Historically, investments with the highest possibility of exceeding inflation also have the widest swings in value (volatility). Which of the following best describes your view about investing, with particular attention to inflation?

- a I prefer stable returns that avoid loss, realising that I may only keep pace with or slightly exceed inflation
- b I prefer stable returns but it is still important to exceed inflation.
- c I prefer a rate of return that exceeds inflation by a substantial amount, but am not comfortable with extreme fluctuations in value or chance of loss.
- d I want to maximise the rate of return on my investments and am willing to accept large fluctuations in value or the chance of loss.

PRIORITIES AND TRADE-OFFS

Your plan will be designed to help you have a high confidence level that your most important financial goals will be achieved. To design the optimal set of the hundreds of potential choices, we need to prioritise your goals to identify those alternatives that make the most sense for what you want to accomplish. Please complete the following;

- Investment risk (volatility or the risk of losing money) is something we all wish to avoid if possible. We can often take less than our maximum tolerance for risk by making relatively minor modifications to our other goals. Please answer the following:

I would be willing to do the following to design a plan that takes less risk than my maximum risk tolerance indicates (check all that apply):

- _____ Save \$ _____ more a year than I'm currently saving
- _____ Retire later than my ideal retirement age
- _____ Leave a smaller estate than my ideal estate
- _____ Lower my retirement income to more modest levels
- _____ I'm comfortable with taking investment risk (based on my maximum tolerance) and I'd prefer to accept that level of investment risk rather than modify any of these other goals.

- Saving money is usually necessary to achieve your financial goals. However, it may also mean you are making sacrifices in your current lifestyle to achieve future goals. Please answer the following:

If possible, I would like to reduce my current annual savings by \$ _____ a year so I can improve my current lifestyle. To meet this goal I would be willing to modify the following goals (check all that apply):

- _____ Take more risk than my maximum risk tolerance indicates
- _____ Retire later than my ideal retirement age
- _____ Leave a smaller estate than my ideal estate
- _____ Lower my retirement income to more modest levels
- _____ I'm comfortable with saving more than my ideal annual savings amount rather than modify any of these other goals

- When you plan to retire can have a significant impact on the profitability of achieving your financial goals, because it is the age when you stop saving and begin withdrawals from investments. Please complete the following:

To retire at my ideal retirement age, I would be willing to modify the following goals (check all that apply):

- _____ Take more risk than my maximum risk tolerance indicates
- _____ Save \$ _____ more a year than I'm currently saving
- _____ Leave a smaller estate than my ideal estate
- _____ Lower my retirement income to more modest levels
- _____ Retiring at my ideal retirement age isn't as important as these other goals, so I'm comfortable delaying retirement to later age to avoid modifying these other goals.

4. Many people have charitable desires or wish to pass wealth on to their family to provide financial security. Doing so can mean compromising other goals. Please answer the following:

To achieve my ideal estate or charitable goals, I would be willing to modify the following goals (check all that apply):

- a _____ Take more risk than my maximum risk tolerance indicates
- b _____ Save \$ _____ more a year than I'm currently saving
- c _____ Retire later than my ideal retirement age
- d _____ Lower my retirement income to more modest levels
- e _____ While I'd like to achieve my estate goals, doing so isn't as important as these other objectives, so I'd be willing to reduce my estate goal to avoid modifying these other goals.

5. Your lifestyle in retirement is dependent both on the resources you have available and your personal preferences. Most people would like to have a comfortable retirement income and lifestyle. Please answer the following:

To maximize my retirement income, I would be willing to modify the following goals (check all that apply):

- a _____ Take more risk than my maximum risk tolerance indicates
- b _____ Retire later than my ideal retirement age
- c _____ Leave a smaller estate than my ideal estate
- d _____ Save more money than my ideal savings amount
- e _____ I'd like to have a comfortable retirement, but I would be willing to live a more modest lifestyle in retirement rather than changing these other goals.