

- **Overview**

Investment risk tolerance can be broken down into two parts: **Ability to take risk (or “risk capacity”)** and **Willingness to take risk (or “risk attitude”)**. The conventional view is that ability to take risk and willingness to take risk **should be considered separately** in the financial planning process.

- **Rating Basis:**

Generally speaking, the **higher the individual's level of wealth and income**, relative to any liabilities they have, and the **longer their investment horizon**, the **more able they will be to take investment risk**, with the corresponding potential for losses, and the **greater their risk capacity. (they can take more risk and more willing to take risk.)**

Risk attitude, on the other hand, has more to do with the **individual's psychology** than with their financial circumstances. And this differs from each other. Risk attitude also related to how much the investors want to meet their **financial goals**.

- **Questionnaire design:**

This questionnaire will contain **5 parts**: personal information, investment appetite, profit loss tolerance, knowledge of investment, psycho test.

risk capacity	risk attitude
personal information	investment knowledge investment appetite profit loss tolerance psycho test

each part will contain **4 questions**, in total there are **20** questions.

For each question there are 5 choices, score ranges from [1, 2, 3, 4, 5]. The overall risk score is compiled by equally weighting the answers to the various questions. And we classify the investors and standardize the original value to the parameter: “risk_aversion”

Classification:

Type	Original score	Risk_aversion
Very cautious	0-25	0 (without short)
cautious	26-33	1
Moderately cautious	34-44	2
balanced	45-56	3
Moderately aggressive	57-67	4
Aggressive	68-79	5
Very aggressive	80-100	6

Risk capacity

Personal information:

Aspect	Cautious	Aggressive
Age	Older	Younger
Income level	Less wealth	More wealth
Investment experience	Less experienced	More experienced
Family responsibility	More dependent	More freedom

1. What is your current **age** in years?

Options	Value
Under 25	5
25-40	4
40-50	3
50-65	2
Above 65	1

2. What is your household's approximate **annual gross income**?

Options	Value
Less than \$25,000	1
\$25,000 - \$49,999	2
\$50,000-\$74,999	3
\$75,000-\$99,999	4
\$100,000 or greater	5

3. How many years of **experience** do you have in investing or managing investment portfolios?

Options	Value
Never	1
Less than 1 year	2
1-3 years	3
3-5 years	4
5 years or above	5

4. How would you describe your current **family financial responsibilities**? Please choose the most suitable one.

Options	Value
Single	5
Married but no child	3
Married, with child under 18	2
Married, with child over 18	4
Caring for elderly parents or multiple dependents	1

Risk attitude

The next stage is to test the investors' risk attitude. The scale, known as a Likert Scale, consists of: Strongly Agree, Agree, Neutral, Disagree, Strongly Disagree. The higher score means the more aggressive risk attitude.

investment knowledge

The higher rates means the investor has more investment knowledge, and they are more willing to accept investment risk.

1. I find investment matters easy to understand.

Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	2	3	4	5

2. Here is a statement: Buying a single company's stock usually provides a safer return than a stock mutual fund

Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
5	4	3	2	1

3. Suppose you had \$100 in an investment account with an annual interest rate of 2%. After 5 years, assuming the interest is compounded annually, if you left the money to grow, you will receive around \$110 in five years.

Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	2	3	4	5

4. If the interest rate on your savings account is 1% per year and inflation is 2% per year, after 1 year, the money in your account will be able to buy less than it could today.

Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	2	3	4	5

investment appetite

This part will directly get the investors' preference towards a higher risk investment plan or a more risk-free one.

1. Duration (liquidity): How soon might you need to access a significant portion of your investments

Options	Value
Within 6 months	1
Within 1 – 3 years	2
Within 3 – 5 years	3
More than 5 years	4
I don't anticipate needing to withdraw for at least 10 years	5

2. Asset allocation: What is your favorite portfolio below?

Options	Value
40% cash+20% gold +30% bond + 10% stock	1
30% cash+20% gold +30% bond + 20% stock	2
30% cash+20% gold +25% bond + 25% stock	3
20% cash+20% gold +30% bond + 30% stock	4
30% cash+10% gold +20% bond + 40% stock	5

3. Protecting my portfolio is more important to me than high returns.

Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
5	4	3	4	1

4. If you are going to invest, Who is responsible for investment allocation decisions in your household?

Options	Value
A professional financial advisor manages our investments.	1
Someone else in my household makes most of the investment decisions.	2
Investment decisions are shared equally among household members.	3
I make most of the decisions but consult with family members or professionals.	4
I make all investment decisions independently.	5

profit loss tolerance

1. I tend to be anxious about the investment decisions I've made.

Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
5	4	3	2	1

2. If you invest in a stock, what is the highest percentage gain you expect from a single stock investment? In other words, at what percentage increase in the price of a stock would you consider selling to lock in your profits?

Options	Value
5%	1
5% - 10%	2
10% - 20%	3
20% - 30%	4
30% or above	5

3. If you are holding a stock and notice it is in a downtrend, which of the following statements best describes your typical reaction?

Options	Value
I would sell them all as I am concerned it may decline further.	1
I would sell a portion of my holdings	2
I am uncertain about the market's direction, so I would hold my position and wait for a potential recovery	3
If the downtrend persists for several days, I would buy more.	4
I would buy more immediately, as I believe the stock will rebound.	5

4. Usually it takes me a long time to make up my mind on investment matters.

Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	2	3	4	5

psycho test (behavioral test)

The aim to design this part is to evaluate investors' psychology towards risk attitude but in a real-life scenario, and try to make this questionnaire more interesting.

1. You join a TV game show, and you are given a free opportunity to choose one of the following options. Which would you choose?

Options	Value
\$1,000 in cash	1
A 80% chance at winning \$3,000	2
A 50% chance at winning \$7,000	3
A 25% chance at winning \$18,000	4
A 10% chance at winning \$50,000	5

2. You have just finished saving for a "once-in-a-lifetime" vacation. Three weeks before you plan to leave, you lose your job. What would you do?

Options	Value
Cancel the vacation	1

Take a much more modest vacation to stay within a budget, but still go.	2
Go as scheduled, reasoning that you need the time to prepare for a job search	3
Extend your vacation slightly, as you believe you can handle the financial strain temporarily.	4
Go as scheduled and extend your vacation, reasoning that this might be your last opportunity for a luxurious experience before a career change	5

3. If you unexpectedly received \$20,000 to invest, what would you do?

Options	Value
Deposit all of it in a bank account.	1
Proxy a professional to help you manage them.	2
Invest it in low-risk, fixed-income investments like bonds.	3
Split the money across stocks and bonds.	4
As it is an unexpected income, you try to invest all of them in a stock market by yourself.	5

4. If your stockbroker tells you that your current investment carries a certain amount of risk, what situation comes to mind first?

Options	Value
Loss	1
Uncertainty	2
Opportunity	3
Challenge	4
Thrill	5