* **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 |

1. 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 |

1. 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 |

1. 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 |

1. 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 |

1. 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 |

1. 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 |

1. 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 |

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

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

1. 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 |

1. 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 |

1. 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 buy more immediately, as I believe the stock will rebound. | 5 |

1. 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 |

1. 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 |

1. 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 |

1. 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 |