

Risk Tolerance Assessment Questionnaire

Chapter 5.4: Time is Money – Developing a Savings and Investment Strategy

Note: This assessment is for educational purposes only and provides a general indication of risk tolerance. Personal investment decisions should be made in consultation with a financial professional who can consider your complete financial situation.

Understanding Risk Tolerance

Risk tolerance is your personal comfort level with financial uncertainty and potential losses. It's influenced by several factors:

- **Time Horizon:** How long until you need the money (longer horizons generally allow for more risk)
- **Financial Capacity:** Your ability to absorb losses without affecting your lifestyle
- **Emotional Comfort:** Your psychological reaction to market volatility and temporary losses
- **Investment Knowledge:** Your understanding of how markets and investments work
- **Financial Goals:** The returns needed to achieve your objectives

Risk Tolerance Questionnaire

1. What is your primary investment timeframe for the majority of your investments?

- ☐ Less than 3 years
- ☐ 3-5 years
- ☐ 5-10 years
- ☐ 10-20 years
- ☐ More than 20 years

2. How would you respond if your investment portfolio suddenly decreased in value by 20%?

- ☐ I would sell all my investments immediately to prevent further losses
- ☐ I would sell some of my investments to reduce risk
- ☐ I would hold my investments and wait for recovery
- ☐ I would hold my investments and perhaps buy more at lower prices
- ☐ I would definitely invest more to take advantage of the lower prices

3. Which statement best describes your attitude toward investment risk?

- ☐ I want to minimize risk and am willing to accept lower returns to do so
- ☐ I am comfortable with a small amount of risk to achieve slightly better returns
- ☐ I am willing to accept moderate risk for moderate returns
- ☐ I am comfortable with substantial risk for the potential of higher returns
- ☐ I seek maximum returns and am willing to accept significant risk to achieve them

4. How often do you check your investment performance?

- ☐ Daily
- ☐ Weekly
- ☐ Monthly
- ☐ Quarterly
- ☐ Annually or less frequently

5. Which of the following hypothetical investment portfolios would you be most comfortable with?

- ☐ Portfolio A: Has a 10% chance of losing money in any year, with average annual returns of 4-6%
- ☐ Portfolio B: Has a 20% chance of losing money in any year, with average annual returns of 6-8%
- ☐ Portfolio C: Has a 30% chance of losing money in any year, with average annual returns of 8-10%
- ☐ Portfolio D: Has a 40% chance of losing money in any year, with average annual returns of 10-12%
- ☐ Portfolio E: Has a 50% chance of losing money in any year, with average annual returns of 12-14%

6. You inherit a significant sum of money. How would you invest it?

- ☐ 100% in safe, guaranteed investments like CDs or money market accounts
- ☐ 70% in safe investments, 30% in stocks or stock funds
- ☐ 50% in safe investments, 50% in stocks or stock funds
- ☐ 30% in safe investments, 70% in stocks or stock funds
- ☐ 100% in stocks or stock funds

7. Which statement best describes your investment knowledge and experience?

- ☐ I have very little knowledge about investing and have never invested before
- ☐ I have some basic knowledge but limited experience with investments
- ☐ I have moderate knowledge and some experience with different types of investments
- ☐ I have good knowledge and significant experience with various investments
- ☐ I have extensive knowledge and experience with a wide range of investment types

8. How important is it to you to preserve your initial investment amount (principal)?

- ☐ Extremely important - I cannot afford to lose any of my principal
- ☐ Very important - I would be very concerned about any loss of principal
- ☐ Moderately important - I can accept some temporary loss of principal
- ☐ Somewhat important - I'm focused more on long-term growth than preserving principal
- ☐ Not very important - I'm focused on maximum growth and understand principal may fluctuate significantly

9. How would you describe your financial situation?

- ☐ I have significant debt and/or minimal savings
- ☐ I have some debt and limited savings
- ☐ I have my debt under control and am building savings
- ☐ I have minimal debt and good savings
- ☐ I am financially secure with substantial savings and minimal or no debt

10. What is your primary investment goal?

- ☐ Preserve my capital (principal) and earn consistent income
- ☐ Generate income with some growth potential
- ☐ Balance between growth and income
- ☐ Achieve growth with some income
- ☐ Maximize long-term growth

Scoring Guide

To calculate your risk tolerance score:

1. Assign points for each question based on your answers (1-5 points per question)
2. Add up your total points across all 10 questions
3. Compare your total to the ranges below to identify your risk profile

Total Score	Risk Profile	Description
10-20	Conservative	You prioritize capital preservation over growth and prefer low-risk investments
21-35	Moderate	You seek to balance growth and risk, accepting some market volatility for better returns
36-50	Aggressive	You prioritize growth and are willing to accept significant market volatility for the potential of higher returns

Important Considerations: Risk tolerance is just one factor in developing an investment strategy. Your specific financial goals, time horizon, financial situation, and investment knowledge are also critical factors. Additionally, risk tolerance may change over time as your circumstances change. Reassess your risk tolerance periodically, especially after significant life changes.