

# A Guide to Assessing Your Risk Tolerance

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## Assessing Your Personal Risk Tolerance

*Investment risk tolerance* can be defined, as the amount of volatility the investor is willing to endure to achieve the investment goal. There are many factors that need to be examined when accessing an investor's risk tolerance. Some important factors include time horizon, the investor's financial resources, and other liabilities and obligations of the investor.

An investor's risk tolerance can depend on the goals he or she is investing toward, as well as the investor's own personality in making investment decisions. Investors with multiple goals often are willing to take more risk with some goals than with others. By the same token, some people's personalities are simply geared toward lesser or greater risk taking. Generally, a critical goal or an objective that has a time frame of less than three years may dictate a conservative investing approach. Less critical goals or objectives with time horizons of more than three years may allow for a more aggressive investing approach because there is time to recover from market downturns.

## Risk Tolerance Evaluation

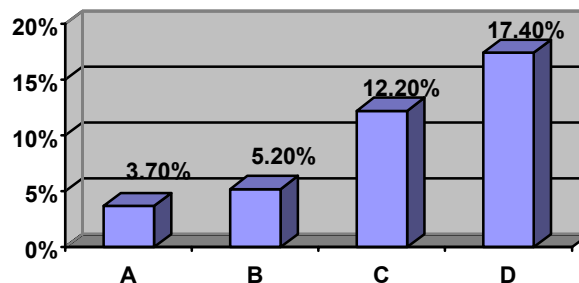
You can use the self-evaluation on the following two pages as a first step in determining your relative risk tolerance - the amount of risk you are comfortable assuming in order to achieve your financial goals. Please read and answer the six questions. After, use the scoring table and grid on page 5 to total your score, and then match it to the corresponding risk-tolerance description that follows on page 6.

## Risk Tolerance Evaluation

1. Which of the following statements is most true about your risk tolerance and the way you wish to invest to achieve your goals?
  - A. My investments should be completely safe: I do not wish to run the risk of losing any principal at this time.**
  - B. My investments should generate regular income that I can spend.**
  - C. My investments should generate some current income and also grow over time.**
  - D. My investments should grow substantially in value over time. I do not need to generate current income.**
  
2. Depending on the kind of investments you select, the value of your assets can remain quite stable (increasing slowly but steadily) or may rise and fall in response to market events. The degree to which the value of an investment moves up and down is referred to as its "volatility." In general, more volatile investments tend to grow faster than more stable investments. However, volatile investments are more risky since there are no guarantees that the upturns will be larger than the "downturns." With respect to your goal(s), how much volatility are you willing to accept.
  - A. Slight. I do not want to lose money, even if it means that my returns are relatively small.**
  - B. Some. I would be willing to accept the occasional loss as long as my money was in sound, high-quality investments that could be expected to grow over time.**
  - C. Considerable. I am willing to take substantial risk in pursuit of significantly higher returns.**
  
3. Investments in which the principal is 100% safe sometimes earn less than the inflation rate. This means that while no money is lost, there is a loss of purchasing power. (To illustrate: If a \$100 bill were locked in a vault 100 years ago and taken out today, it would still be worth \$100 but would buy a great deal less today than when it was put in.) With respect to your goal(s), which of the following is most true?
  - A. My money should be 100% safe, even if it means my returns do not keep up with inflation.**
  - B. It is important that the value of my investments keep pace with inflation. I am willing to risk an occasional loss in principal so that my investments may grow at about the same pace as inflation over time.**
  - C. It is important that my investments grow faster than inflation. I am willing to accept a fair amount of risk to try to achieve this.**

4. I understand the value of my portfolio will fluctuate over time. However, the maximum loss in any one year period that I would be prepared to accept is approximately:
- A. 0 %**
  - B. -5 %**
  - C. -10 %**
  - D. -20 %**
  - E. -30 %**
5. Consider the following two investments: A and B. Investment A provides an average annual return of 5% with minimal risk of loss of principal. Investment B provides an average annual return of 10% but carries a potential loss of principal of 20% or more in any year. If I could choose to invest between Investment A and Investment B to meet my goal(s), I would invest my money:
- A. 100% in Investment A and 0% in Investment B.**
  - B. 80% in Investment A and 20% in Investment B.**
  - C. 50% in Investment A and 50% in Investment B.**
  - D. 20% in Investment A and 80% in Investment B.**
  - E. 0% in Investment A and 100% in Investment B.**
6. The data below represents actual historical performance of four selected investment portfolios, A, B, C and D, over a 60-year period. The chart illustrates average annual total returns.\* This performance must be weighted against the associated risk reflected in the high and low range of annual returns experienced by the portfolios. These ranges are displayed below the chart. (For example, Portfolio C achieved a 12.2% average annual total return during the 60-year period, gaining 25% in the best year and losing 10% in the worst year.)

**Average Annual Total Return**



Among these investments, I would prefer my primary investment to be:

- A. Portfolio A - highest annual return 6%, lowest annual return 0%**
- B. Portfolio B - highest annual return 12%, lowest annual return - 5%**
- C. Portfolio C - highest annual return 25%, lowest annual return - 10%**
- D. Portfolio D - highest annual return 53%, lowest annual return - 15%**

## Scoring

After answering each of the six questions you may use the following point system and grid to total your score.

Question	A	B	C	D	E
<b>1</b>	1	3	5	7	9
<b>2</b>	1	5	9	n/a	n/a
<b>3</b>	1	5	9	n/a	n/a
<b>4</b>	1	3	5	7	9
<b>5</b>	1	3	5	7	9
<b>6</b>	1	3	7	9	n/a

## Interpretation

In general, the higher your score, the more comfortable you would appear to be with taking on financial risk.

Two things should be kept in mind as you read the descriptions of the various risk profiles on the following page. First, your recent investment experience may have influenced your responses. Recent success may bias you toward taking on more risk, while recent setbacks may incline you toward a more conservative approach. Second, in the category indicated by your score, you may find that the attainment of your goals may be difficult to reach.

### Please Note:

Understanding risk is a process that benefits from a review of your **total financial situation**. This is best accomplished by developing a formal financial plan. The asset allocation recommendation resulting from a formal plan may be different from the outcome of the self-scoring method presented here.

## Results

<b>Point Range</b>	<b>Description</b>	<b>Risk Category</b>
6 - 15	In this risk category, preservation of capital is the single most important concern, with an average annual return typically ranging from 5% to 7%. Adjusted for inflation, investment returns may be very low or, in some years, negative, in exchange for very high liquidity and essentially no risk of principal loss.	<b>-1- Conservative</b>
16 - 25	In this risk category, preservation of capital and income are the most important objectives, with an average annual total return typically ranging from 6% to 8%. A slightly greater willingness to accept risk is seen in a desire to have a modest positive "real" (after inflation) rate of return.	<b>-2- Conservative to Moderate</b>
26 - 34	Investors in this risk category accept possible principal loss as a natural function of investment risk incurred in the pursuit of higher total return, typically ranging from 7% to 9%. The degree of risk is normally reduced through diversification and asset allocation and periodic revisions to rebalance any excesses that develop.	<b>-3- Moderate</b>
35 - 44	Investors in this risk category are more willing to take risk, both in the types of securities held and in the concentration of holdings in favored market sectors. The average annual return typically ranges from 8% to 10%, but some holdings may be aimed at higher goals. More active portfolio adjustment is a typical feature of this type of investor's behavior.	<b>-4- Moderate to Aggressive</b>
45 - 54	Investors in this risk category typically are willing to sustain more in the way of losses on individual transactions expecting that overall portfolio results in the balance of their holdings will produce average annual total returns of 10% or greater. More concentrated positions and frequent portfolio changes typify this type of investor. More speculative investment choices also require careful and continuous oversight. Investors in this category may experience a wide variance in results from one year to the next in the pursuit of longer-term goals.	<b>-5- Aggressive</b>

## Building Your Own Portfolio - Tolerance Reality

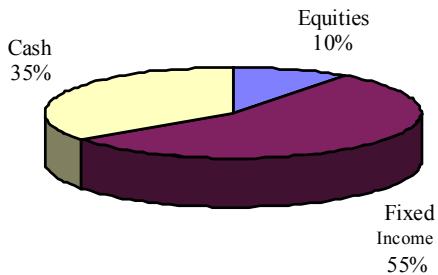
CIBC Wood Gundy has identified five portfolio allocations that will correspond with the five risk categories. Each model - Capital Preservation, Current Income, Income and Growth, Long-Term Growth, and Aggressive Growth - has its own price stability/return profile and accompanying asset allocation. These categories generally coincide with the way in which investors characterize themselves and their objectives.

The grid below illustrates the trade-offs that must be considered when designing an investment plan.

Risk Category	Price Stability	Return Potential	Model Name	Asset Allocation	
				Stocks	Bonds
<b>-1- Conservative</b>			<b>Capital Preservation</b>	10%	55%
<b>-2- Conservative to Moderate</b>			<b>Current Income</b>	30%	60%
<b>-3- Moderate</b>			<b>Income &amp; Growth</b>	40%	50%
<b>-4- Moderate to Aggressive</b>			<b>Long-Term Growth</b>	70%	25%
<b>-5- Aggressive</b>			<b>Aggressive Growth</b>	80%	10%

# CIBC Wood Gundy Asset Allocation Models

## CAPITAL PRESERVATION



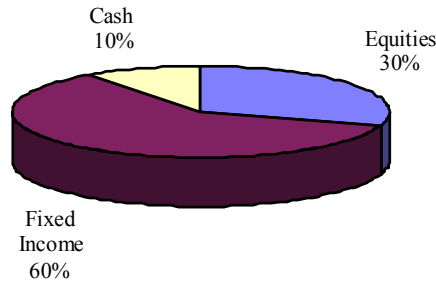
### INVESTMENT OBJECTIVE:

Protect principal with some emphasis on income.

### RISK PROFILE:

An investor willing to accept less than average return to minimize risk of losses.

## CURRENT INCOME



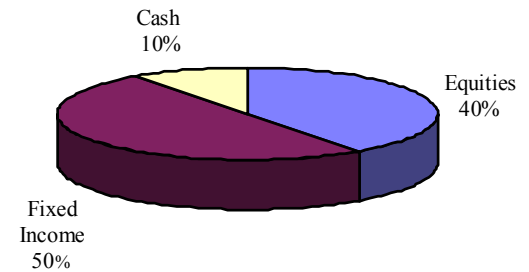
### INVESTMENT OBJECTIVE:

Produce an ongoing secure income stream with some emphasis on protection of principal.

### RISK PROFILE:

An investor willing to accept some risk associated with changing interest rate conditions to satisfy current yield requirements.

## INCOME AND GROWTH



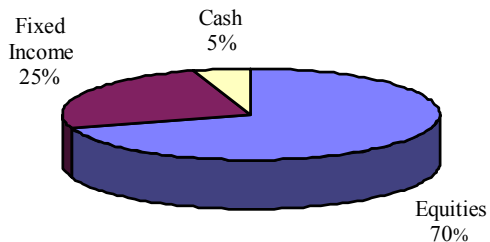
### INVESTMENT OBJECTIVE:

To maintain a balance between bonds for current income and stocks for growth of principal and dividends.

### RISK PROFILE:

An investor willing to accept some risk to increase growth possibilities, assuming income is undisturbed.

## LONG TERM GROWTH



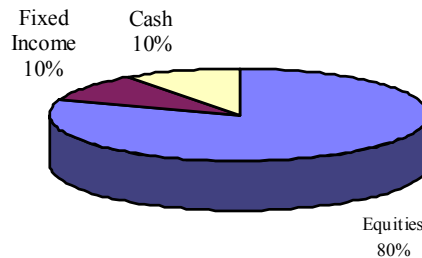
### INVESTMENT OBJECTIVE:

To achieve above-average capital gains over a three to five year period.

### RISK PROFILE:

An investor willing to accept some interim price volatility to achieve that potential growth.

## AGGRESSIVE GROWTH



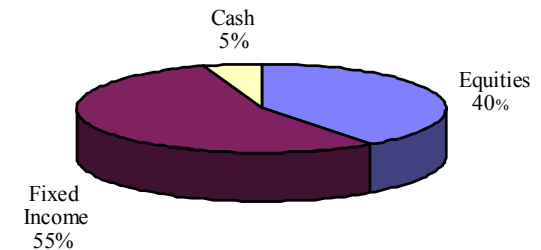
### INVESTMENT OBJECTIVE:

To achieve above average capital growth over a three to five year period.

### RISK PROFILE:

An investor willing to accept substantial risk in order to realize above-average returns.

## CAPITAL APPRECIATION



### INVESTMENT OBJECTIVE:

To maximize capital gains over a short period, i.e. 1 year.

### RISK PROFILE:

An investor willing to take moderately high risk to take advantage of anticipated major market moves and make larger than normal commitments to a single asset class.