FinaMetrica Risk Tolerance Questionnaire and Report for John Sample

Why are 25 questions needed? A person's answer to a specific question may be influenced by a particular experience they have had, or their mood at the time. Or they may have misinterpreted the question. Or they may simply have made a mistake.

Statistical studies are used to determine the number of questions needed to provide a scientifically acceptable level of accuracy in an assessment. The accuracy of a questionnaire is a function, in part, of the square of the number of questions. Because of the nature of risk tolerance more than just a few questions are needed. Twenty would be a minimum. Statistical studies of this questionnaire show that its accuracy exceeds internationally accepted standards.

What if the situation described in a question has never happened to me, or will never happen to me? There are a number of questions that ask you to assume or imagine you are in a certain situation. These questions are designed to gain a picture of what you would do in such circumstances, regardless of whether you have ever been in them or are ever likely to be in them. . Please answer as best you can on the available information.

What if a question asks about a situation where, in real life, I would have (or would seek) more information than is given in the question? Some questions require you to make a decision based on limited information. While, in real life, you may wish to obtain more information before making your final decision, these questions are designed to gain an idea of what you would do given the limited information. Please answer as best you can on the available information.

What if none of the choices in a multiple-choice question is my preferred answer? Some questions give you a limited choice of responses and may not include what would be your preferred answer. These are designed to obtain a picture of what you would do given the choices available. Please answer as best you can on the available choices.

1 **Compared to others, how do you rate your willingness to take financial risks?**

○ Extremely low risk taker.

○ Very low risk taker.

● Low risk taker.

○ Average risk taker.

○ High risk taker.

○ Very high risk taker.

○ Extremely high risk taker.

2 **How easily do you adapt when things go wrong financially?**

● Very uneasily.

○ Somewhat uneasily.

○ Somewhat easily.

○ Very easily.

3 **When you think of the word 'risk' in a financial context, which of the following words comes to mind first?**

○ Danger.

● Uncertainty.

○ Opportunity.

○ Thrill.

4 **Have you ever invested a large sum in a risky investment mainly for the "thrill" of seeing whether it went up or down in value?**

● No.

○ Yes, very rarely.

○ Yes, somewhat rarely.

○ Yes, somewhat frequently.

○ Yes, very frequently.

5 **If you had to choose between more job security with a small pay rise and less job security with a big pay rise, which would you pick?**

● Definitely more job security with a small pay rise.

○ Probably more job security with a small pay rise.

○ Not sure.

○ Probably less job security with a big pay rise.

○ Definitely less job security with a big pay rise.

6 **When faced with a major financial decision, are you more concerned about the possible losses or the possible gains?**

● Always the possible losses.

○ Usually the possible losses.

○ Usually the possible gains.

○ Always the possible gains.

7 **How do you usually feel about your major financial decisions after you make them?**

○ Very pessimistic.

○ Somewhat pessimistic.

● Somewhat optimistic.

○ Very optimistic.

8 **Imagine you were in a job where you could choose whether to be paid salary, commission or a mix of both. Which would you pick?**

● All salary.

○ Mainly salary.

○ Equal mix of salary and commission.

○ Mainly commission.

○ All commission.

9 **What degree of risk have you taken with your financial decisions in the past?**

● Very small.

○ Small.

○ Medium.

○ Large.

○ Very large.

10 **What degree of risk are you currently prepared to take with your financial decisions?**

○ Very small.

● Small.

○ Medium.

○ Large.

○ Very large.

11 **Have you ever borrowed money to make an investment (other than for your home)?**

● No.

○ Yes.

12 **How much confidence do you have in your ability to make good financial decisions?**

○ None.

○ A little.

● A reasonable amount.

○ A great deal.

○ Complete.

13 **Suppose that 5 years ago you bought shares in a highly regarded company. That same year the company experienced a severe decline in sales due to poor management. The price of the shares dropped drastically and you sold at a substantial loss.**

The company has been restructured under new management, and most experts now expect it to produce better than average returns. Given your bad past experience with this company, would you buy shares now?

- ○ Definitely not.
- ● Probably not.
- ○ Not sure.
- ○ Probably.
- ○ Definitely.

14 Investments can go up or down in value, and experts often say you should be prepared to weather a downturn. By how much could the total value of <u>all your investments</u> go down before you would begin to feel uncomfortable?

- ○ Any fall would make me feel uncomfortable.
- ● 10%.
- ○ 20%.
- ○ 33%.
- ○ 50%.
- ○ More than 50%.

15 Assume that a long-lost relative dies and leaves you a house which is in poor condition but is located in a suburb that`s becoming popular.

As is, the house would probably sell for R600,000, but if you were to spend about R200,000 on renovations, the selling price would be around R1,200,000. However, there is some talk of developing a huge low cost/high density housing project next to the house, and this would lower its value considerably.

Which of the following options would you take?

- ● Sell it as is.
- ○ Keep it as is, but rent it out.
- ○ Take out a R200,000 mortgage and do the renovations.

16 Most investment portfolios have a mix of investments - some of the investments may have high expected returns but with high risk, some may have medium expected returns and medium risk, and some may be low-risk/low-return. (For example, shares and property would be high-risk/high-return whereas cash and bank deposits would be low-risk/low-return.)

Which mix of investments do you find most appealing? Would you prefer all low-risk/low-return, all high-risk/high-return, or somewhere in between?

Spread of Investments in Portfolio

		High Risk/Return	Medium Risk/Return	Low Risk/Return
○	Portfolio 1	0 %	0 %	100 %
○	Portfolio 2	0 %	30 %	70 %
○	Portfolio 3	10 %	40 %	50 %
●	Portfolio 4	30 %	40 %	30 %
○	Portfolio 5	50 %	40 %	10 %
○	Portfolio 6	70 %	30 %	0 %
○	Portfolio 7	100 %	0 %	0 %

17 **You are considering placing one-quarter of your investment funds into a single investment. This investment is expected to earn about twice the bank deposit rate. However, unlike a bank deposit, this investment is not protected against loss of the money invested.**

How low would the chance of a loss have to be for you to make the investment?

- ○ Zero, i.e. no chance of any loss.
- ● Very low chance of loss.
- ○ Moderately low chance of loss.
- ○ 50% chance of loss.

18 **With some types of investment, such as cash and bank deposits, the value of the investment is fixed. However inflation will cause the purchasing power of this value to decrease.**

With other types of investment, such as shares and property, the value is not fixed. It will vary. In the short term it may even fall below the purchase price. However over the long term, the value of the shares and property should certainly increase by more than the rate of inflation.

With this in mind, which is more important to you - that the value of your investments does not fall or that it retains its purchasing power?

- ○ Much more important that the value does not fall.
- ● Somewhat more important that the value does not fall.
- ○ Somewhat more important that the value retains its purchasing power.
- ○ Much more important that the value retains its purchasing power.

19 **In recent years, how have your personal investments changed?**

- ○ Always toward lower risk.
- ● Mostly toward lower risk.
- ○ No changes or changes with no clear direction.
- ○ Mostly toward higher risk.
- ○ Always toward higher risk.

20 **When making an investment, return and risk usually go hand-in-hand. Investments which produce above-average returns are usually of above-average risk. With this in mind, how much of the funds you have available to invest would you be willing to place in investments where both returns and risks are expected to be above average?**

- ○ None.
- ○ 10%.
- ○ 20%.
- ○ 30%.
- ● 40%.
- ○ 50%.
- ○ 60%.
- ○ 70%.
- ○ 80%.
- ○ 90%.
- ○ 100%.

21 Think of the average rate of return you would expect to earn on an investment portfolio over the next ten years. How does this compare with what you think you would earn if you invested the money in bank deposits?

- ○ About the same rate as from bank deposits.
- ○ About one and a half times the rate from bank deposits.
- ● About twice the rate from t bank deposits.
- ○ About two and a half times the rate from bank deposits.
- ○ About three times the rate from bank deposits.
- ○ More than three times the rate from bank deposits.

22 Assume you can arrange your financial affairs to obtain a tax advantage. However a change in legislation can leave you worse off than if you had done nothing. With this in mind, would you take a risk in arranging your affairs to obtain a tax advantage?

- ○ I would not take a risk if there was any chance I could finish up worse off.
- ● I would take a risk if there was nly a small chance I could finish up worse off.
- ○ I would take a risk as long as there was more than a 50% chance that I would finish up better off.

23 Imagine that you are borrowing a large sum of money at some time in the future. It's not clear which way interest rates are going to move - they might go up, they might go down, no one seems to know. Assume that, as is common in other countries, you could take a variable interest rate that will rise and fall as the market rate changes. Or you could take a fixed interest rate which is 1% more than the current variable rate but which won't change as the market rate changes. Or you could take a mix of both.

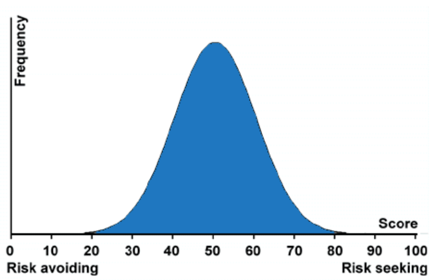
How would you prefer your loan to be made up?

- ○ 100% variable.
- ○ 75% variable, 25% fixed.
- ● 50% variable, 50% fixed.
- ○ 25% variable, 75% fixed.
- ○ 100% fixed.

24 Insurance can cover a wide variety of life's major risks - theft, fire, accident, illness, death etc. How much cover do you have?

- ○ Very little.
- ● Some.
- ○ Considerable.
- ○ Complete.

25 This questionnaire is scored on a scale of 0 to 100. When the scores are graphed they follow the familiar bell-curve of the Normal distribution shown below. The average score is 50. Two-thirds of all scores are within 10 points of the average. Only 1 in 1000 is less than 20 or more than 80.



What do you think your score will be?

Response was: *34*.

Personal Financial Risk Profile

Prepared for

John Sample

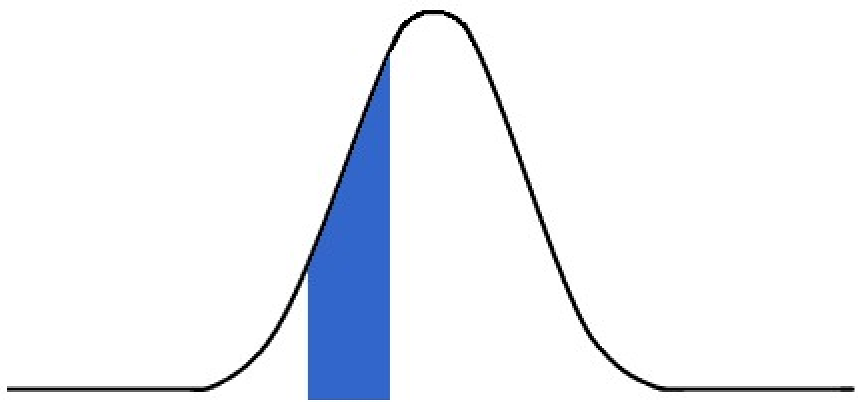
from the questionnaire completed on

08 May 2008

Your Risk Tolerance Score

Your Risk Tolerance Score enables you to compare yourself to a representative sample of the adult population. Your score is 37. This is a very low score, lower than 89% of all scores.

When scores are graphed they form a bell-curve as shown below. To make the scores more meaningful, the 0 to 100 scale has been divided into seven Risk Groups. Your score places you in Risk Group 3.



Risk Group	1	2	3	4	5	6	7
Score Range	Less than 25	25-34	35-44	45-54	55-64	65-74	75 or more
No in Group	1%	6%	24%	38%	24%	6%	1%

In answer to the last question, you estimated your score would be 34. Congratulations! You were close. Most people under-estimate their score by a few points.

Your Risk Group

The description of Risk Group 3 which follows provides a summary of the typical attitudes, values, preferences and experiences of those in your group. Three of your answers differed from this description. They are shown in italics below the relevant section. These differences fine-tune the description to you personally.

Making Financial Decisions

They usually think of "risk" as "uncertainty". They have a reasonable amount of confidence in their ability to make good financial decisions and usually feel somewhat optimistic about their major financial decisions after they make them.

They are prepared to take a small to medium degree of risk with their financial decisions and are usually more concerned about the possible losses than the possible gains.

When faced with a major financial decision you are always more concerned about the possible losses.

Financial Disappointments

Typically, when things go wrong financially they adapt somewhat or very uneasily.

Financial Past

They have taken a small to medium degree of risk with their past financial decisions. Two-thirds of this group have never borrowed money to make an investment.

You have taken only a very small degree of risk with your past financial decisions.

Investment

With regard to the value of their investments, they feel that retaining its purchasing power is of comparable importance to its not falling. Over ten years, most expect an investment portfolio to earn, on average, from one and a half to twice the rate from bank deposits. Typically, they would begin to feel uncomfortable if the total value of their investments went down by 10%.

Given these portfolio choices,

	Expected Return and Risk		
	High	Medium	Low
Portfolio 1	0%	0%	100%
Portfolio 2	0%	30%	70%
Portfolio 3	10%	40%	50%
Portfolio 4	30%	40%	30%
Portfolio 5	50%	40%	10%
Portfolio 6	70%	30%	0%
Portfolio 7	100%	0%	0%

where shares and property are high return/high risk and cash and bank deposits are low return/low risk, their most common choice is Portfolio 3.

With these portfolio choices, you would choose Portfolio 4.

Borrowing

If they were borrowing a large sum of money at a time when it was not clear which way interest rates were going to move and when the fixed interest rate was 1% more than the then variable rate, most would choose to have a 50/50 mix of fixed and variable interest.

Government Benefits and Tax Advantages

So long as there was only a small chance they could finish up worse off than if they'd done nothing, they would take a risk in arranging their affairs to obtain a tax advantage.

How to Use This Report

Your Risk Profile has been prepared from information provided by you and is, of course, only relevant to you.

If, for example, you are one of a couple who make joint decisions, your partner should also do a risk tolerance assessment. Both Risk Profiles then need to be considered when joint decisions are being made. Similarly, where you are acting on behalf of someone else, e.g. under a power of attorney or as trustee, your own Risk Profile remains relevant but must be considered in the context of your responsibilities.

The factors, other than personality, which influence risk tolerance include financial know how and experience, as well as personal, family and work situations and aspirations. If there is a significant change in any of these, risk tolerance should be re-tested. This re-testing is not only for your subsequent decision-making but also for review of decisions made before the change.

People starting to actively manage their finances and/or investments for the first time often find that the new knowledge and experience lead to an increased risk tolerance. In such circumstances, risk tolerance should be re-tested within 6 to 12 months.

In any event, your risk tolerance should be re-tested every two or three years as it usually does change (slowly) with age.

You should discuss your Risk Profile with your financial planner. Notes of this discussion should be made below. These notes may include modifications of, or expansions on, particular aspects of your Risk Profile. Because it is critical that you and your planner have the same understanding of your risk tolerance, you both should sign the report in the spaces provided to evidence this understanding.

It is important to have confidence in any person with whom you discuss your Risk Profile. They must have the experience, skill and capacity to incorporate it into a decision making process with you.

You can rely on your Risk Profile to assist you in your financial decision making. However, we cannot endorse or support any specific decision you may make because, while we fully support the Risk Profile itself, we are not privy to all the other information that effective financial decision making requires.

Our Risk Profiling system is the financial services equivalent of the first blood pressure machine. While an accurate blood pressure reading does not, by itself, determine a diagnosis or treatment, it does provide critically important information. As the use of scientific Risk Profilers becomes widespread, better 'diagnoses' will be made, more appropriate 'treatments' will be prescribed, the incidence of unpleasant 'side-effects' will be reduced and 'health' outcomes will improve.

For more information about Risk, Risk Tolerance and the FinaMetrica system see the Footnotes below.

Notes

Client ....

Financial Planner ....