

# **NZ 1<sup>ST</sup> FINANCIAL SERVICES**

## **RISK ASSESSMENT QUESTIONNAIRE**

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## Table of Contents

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<b>1.</b>	<b>Background</b>	<b>2</b>
1.1	Understanding Investment Risk and Your Risk Profile	2
1.2	Risk versus Return	2
1.3	Risk Profile	2
<b>2.</b>	<b>Risk Assessment Questionnaire</b>	<b>3</b>
<b>3.</b>	<b>Score Sheet (for adviser use only)</b>	<b>5</b>
<b>4.</b>	<b>Appendix 1: Overview of Risk Profiles</b>	<b>7</b>

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<sup>1</sup> NZ 1<sup>st</sup> Financial Services is an independent, international provider of investment portfolio information. NZ 1<sup>st</sup> Financial Services does not warrant the accuracy of the risk profile or accept any liability arising from the use of the risk profile questionnaire.

## 1 Background

### 1.1 Understanding Investment Risk & Your Risk Profile

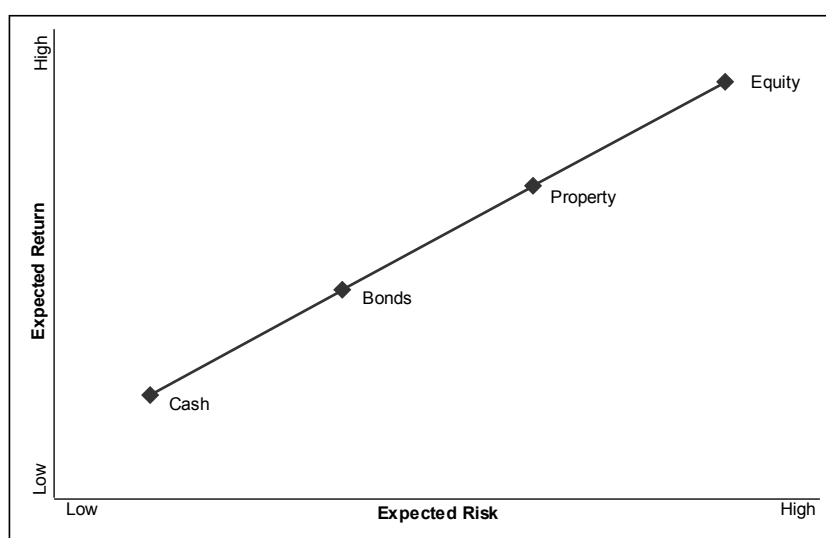
NZ 1<sup>st</sup> Financial Services defines investment risk as “the amount the value of a portfolio varies over time.” This means that the greater the expected variability or fluctuation in performance, the greater the investment risk. Risk may also be defined as the amount that an actual return differs from the expected return

### 1.2 Risk versus Return

Income assets are defined as cash, mortgages and fixed interest investments where returns consist of interest payments and a repayment of capital at a future date. Growth assets include shares, property and alternative investments where returns are mainly from an increase in the capital value.

On a risk / return basis, income assets have lower returns and lower risks than growth assets. Investors wanting to earn higher returns generally have a higher proportion of growth assets in their investment portfolios; however risk increases as the proportion of growth assets increases.

The risk / return characteristics of the four asset classes are shown below:



### 1.3 Risk Profile

The objective of the Risk Assessment Questionnaire is to ascertain your view on the risks you are comfortable to accept while aiming to achieve your investment objectives. The questions in the Risk Assessment Questionnaire focus on

- × Time Horizon
- × Long Term Goals and Expectations
- × Short Term Risk Attitudes.

The results provide your risk profile and this is used to identify the most suitable portfolio from the five NZ 1<sup>st</sup> Financial Services portfolios featuring differing levels of risk. For further explanation of the five NZ 1<sup>st</sup> Financial Services portfolios, please refer to Appendix 1.

## 2 Risk Assessment Questionnaire

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Client(s) Name : \_\_\_\_\_

*This questionnaire will help your financial adviser determine the best asset allocation for your investment. Please circle the most appropriate response to each of the seven questions below*

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### A. Time Horizon

*The first two questions concern your time horizon for this investment.*

**Score**

1

2

**Sub Total**

1. My current age is
  - a Less than 30
  - b 31 – 40
  - c 41 – 50
  - d 51 – 64
  - e 65 or older
  
2. I expect to start drawing income from this investment
  - a in over 20 years
  - b in 11 to 20 years
  - c In 6 to 10 years
  - d within 5 years
  - e immediately

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## B. Long-term Goals and Expectations

*The next three questions ask about your long-term goals and expectations for this investment.*

*Please be realistic.*

3. For this investment my goal is
  - a To achieve returns significantly higher than the rate of inflation
  - b To achieve returns well above the rate of inflation
  - c To achieve returns marginally above the rate of inflation
  - d To keep up with inflation
  - e To avoid losing capital
  
4. What is your feeling about losses within your portfolio?
  - a I would take the opportunity to increase my investments when the portfolio is in a loss situation
  - b I can accept decreases in the value of my portfolio
  - c I am uncomfortable with a decrease in value, but will accept it
  - d I would be uncomfortable with a loss
  - e Any loss is unacceptable
  
5. Which of the following statements best expresses your feelings towards returns for the next 10 years?
  - a I can accept high volatility in order to achieve high returns.
  - b I can accept above average volatility in order to achieve above average returns.
  - c I am comfortable with a small amount of volatility in order to outperform bank deposits.
  - d Preserving capital is a key priority, but I can accept some volatility to increase my return.
  - e Avoiding any form of risk is more important than pursuing a better return than the bank.

Score

1

2

**Sub Total**

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### C. Short-term Risk Attitudes

The last two questions concern your thoughts about shorter-term results. Again, please answer as honestly as possible.

Score

6

7

Subtotal

**SCORE GRAND  
TOTAL**

6 Which of these statements best describes your attitude to the performance of this investment over the next three years?

- a. I don't mind if I lose money over this period
- b. I can tolerate a loss
- c. I can tolerate a small loss
- d. I would have a hard time tolerating any losses
- e. I would need to see at least a little return

7 Which of these statements best describes your attitude to the investment's performance over the next three months?

- a. Who cares? One calendar quarter means nothing
- b. I wouldn't worry about losses in that time frame
- c. If I suffered a loss of greater than 10%, I would get concerned
- d. I can only tolerate small short-term losses
- e. I would have a hard time stomaching any losses

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I/We have completed the above risk assessment questionnaire and agree with the risk profile DEFENSIVE; CONSERVATIVE; BALANCED; GROWTH; AGGRESSIVE conclusion. I/We accept that the risk profile selected is not a guarantee of future returns. Markets go up and down and are not entirely predictable. It is simply an estimate of future performance based on historical returns for the risk profile selected. I/We indemnify the financial planner against any liability incurred relating to the development of an incorrect risk profile and investment portfolio.

Date:

Client signature:

Client Name:

Client signature:

Client Name:

Adviser Signature:

Adviser Name:

### 3: Adviser Score Sheet (for adviser use only)

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*This score sheet will help you determine the best asset allocation for your client's investment. Please follow the instructions below.*

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#### **Step One      Scoring**

*Score the questionnaire as follows.*

a = 5

b = 4

c = 3

d = 2

e = 1

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#### **Step Two      Consistency Check**

*Before tallying the scores and choosing the appropriate asset allocation, check the questionnaire for internal consistency to ensure that each investor has a realistic set of expectations and attitudes given their situation.*

**Under no circumstances should the adviser map the investor to any of the risk profiles without first checking for consistency in the questionnaire answers.**

*Indicate the investor's scores using the spaces below.*

Number of questions with 1 point \_\_\_\_\_

Number of questions with 2 points \_\_\_\_\_

Number of questions with 3 points \_\_\_\_\_

Number of questions with 4 points \_\_\_\_\_

Number of questions with 5 points \_\_\_\_\_

#### **Stop**

*If an investor has at least one 1-point answer and at least one 5-point answer, stop and evaluate. This investor's goals and expectations are unrealistic. Before assigning an asset allocation, investigate these inconsistencies and help the investor adjust the expectations, attitudes or time horizon to be more realistic.*

#### **Go**

*If an investor passes the consistency test, proceed to Step 3.*

### Step Three Risk Profile Mapping

Once the adviser and client have checked for internal consistency and have made any necessary adjustments to the questionnaire's answers, the adviser should use the score sheet to tally the point total for each of the three sections and then combine the sub-totals for a grand total. The adviser should then check the appropriate risk profile based on each section and also based on the grand total.

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Sections	Total Points	Points	Risk Profile
A. Time Horizon Questions 1 & 2		2 3 – 4 5 – 7 8 – 9 10	Defensive Conservative Balanced Growth Aggressive
B. Long-Term Goals and Expectations Questions 3, 4 & 5		3 4 – 6 7 – 9 10 – 13 14 – 15	Defensive Conservative Balanced Growth Aggressive
C. Short Term Risk Attitudes Questions 6 & 7		2 3 – 4 5 – 6 7 – 8 9 – 10	Defensive Conservative Balanced Growth Aggressive
D. Grand Total		7 – 12 13 – 17 18 – 24 25 – 32 33 – 35	Defensive Conservative Balanced Growth Aggressive

After tallying the points and circling the appropriate portfolios for each section, the adviser can evaluate the results. If the three sections suggest different portfolios, the adviser should evaluate the situation, discuss the reasons for the differences with the investor, and determine whether any goals or expectations need to be adjusted before selecting the most appropriate portfolio.

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#### Example

Investor A's scores suggest a Conservative risk profile under Time Horizon, Growth risk profile under Long-Term Goals, Balanced risk profile under Short-Term Risk and Balanced risk profile overall. Although Investor A may not necessarily have any 1-point/5-point combinations, there are still some potential inconsistencies that merit discussion. The adviser is likely to map Investor A to the Balanced risk profile overall. However, the adviser can use the score sheet results to point out that the investor's long-term expectations may be too high, given the relatively short time horizon and attitudes towards short-term risk. By lowering expectations a little, Investor A can have a portfolio that meets income needs without exhibiting too much short-term volatility.



## Appendix 1: Overview of Risk Profiles

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NZ 1<sup>st</sup> Financial Services has developed five profiles to suit the risk profiles and requirements of investors.

Risk Profile	Description	Expected total return (before tax <sup>2</sup> )	Likely range of returns % pa over a 3 year period <sup>2</sup>	Historical Occurrence of 3 year Loss <sup>3</sup>
<b>Defensive</b>	You require capital values to be protected, a high degree of stability & you are willing to accept below average returns in order to minimise volatility.	7.0%	3.4% to 10.6%	Zero
<b>Conservative</b>	You require minimal volatility in capital value & are willing to accept lower returns due to the need for a lower level of volatility.	7.3%	2.9% to 11.8%	Zero
<b>Balanced</b>	You require a modest level of capital stability, above average long-term growth, & you are willing to accept moderate volatility.	8.0%	1.5% to 14.6%	1.8%
<b>Growth</b>	You require minimal income & are willing to accept higher levels of volatility in return for potentially higher returns over the long-term.	8.7%	-0.2% to 17.7%	9.1%
<b>Aggressive</b>	You require no income & are willing to accept very high levels of volatility in return for the potential to achieve very high returns over the long-term.	9.3%	-2.1% to 21.0%	12.7%

<sup>2</sup> The earning rates shown are based on NZ 1<sup>st</sup> Financial Services estimates, are before tax and fees & are an annualised return which is NZ Dollar adjusted. The earning rates are not guaranteed & are subject to change without notice, nor is the repayment of capital guaranteed.

<sup>3</sup> Based on customised benchmark portfolios comprising capital market returns, gross of fees and tax, for the period from October 2002 to December 2012