

Risk Tolerance & Asset Allocation Worksheet

How do you choose the investment mix that's right for you?

1 DETERMINE YOUR TIME HORIZON FOR EACH GOAL

The chart below spells out the relationship between risk and return for the three major asset classes.

Lower Potential Return		Higher Potential Return
Cash	Bonds	Stocks
Time Horizon: Less than 5 years Objective: Preservation of Principal	Time Horizon: 5-10 years Objective: Income	Time Horizon: Over 10 years Objective: Growth

Lower Potential Principal Risk

Higher Potential Principal Risk

As shown above, the higher the potential risk, the higher the potential return. Does the chart above tell you to invest all of your long-term funds in stocks and all your intermediate funds in bonds? **No!** It's important to have a mix of investments that reflects both your time horizon and your risk tolerance. For a shorter time frame, you'll probably want to stick with low risk investments because you don't have time to make up for lost returns if the stock market has a bad year or two. As your time frame increases, you'll have a greater opportunity to benefit from the higher return potential offered by bond and stock investments.

Cash can include simply accounts sitting in a money market account or cash equivalents which can be invested in commercial paper, T-bills or other ultra-short-term investments. An investment in cash equivalent securities is not insured or guaranteed by the FDIC, NCUA or any other government agency. Although the goal exists to preserve the value of your investment at a constant dollar rate, it is possible to lose money by investing in these securities. General risks inherent to investments in stocks include the fluctuation of market prices and dividend, loss of principal, market price at sell may be more or less than initial cost and potential illiquidity of the investment in a falling market, including loss of principal. Bonds are subject to market and interest rate risk if sold prior to maturity. Selling bonds prior to maturity may make the actual yield differ from their advertised yield and may involve a loss or gain. Bond values will decline as interest rates rise and are subject to availability and change in price.

2 DETERMINE YOUR RISK TOLERANCE:

Take this quiz to find out your risk profile.

1. General investment knowledge			
I am not clear on the difference between stocks and bonds, and I'm not sure exactly what the difference is between a Roth IRA and a Traditional IRA. (1 point)	I'm familiar with basic financial terms, but I don't know how to apply them to my life so that I can make the best investment decisions. (2 points)	I'm comfortable with the investment basics. I've done my own research and have found some financial products that fit my needs, but I'd like to get a second opinion to be sure I'm on track. (3 points)	I actively manage my own portfolio and am very confident that I am making the best investment decisions for my financial goals. I make an effort to keep up to date with the stock market and I read a variety of financial publications weekly. (4 points)

2. Investment fluctuation: *I am willing to accept some degree of fluctuation in my investments over time.*

I strongly disagree with the above statement. (1 point)	I disagree with the above statement. (2 points)	I agree with the above statement. (3 points)	I strongly agree with the above statement. (4 points)
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3. Risk and Inflation: *I am willing to take on additional risk in order for my investments to keep pace with inflation.*

I strongly disagree with the above statement. (1 point)	I disagree with the above statement. (2 points)	I agree with the above statement. (3 points)	I strongly agree with the above statement. (4 points)
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4. Short-term Loss: *You notice that your investments have dropped by more than 10% in the past few months. What action do you take?*

Sell now. I can't afford to lose any more. I'll reinvest the money in a savings or money market account until the market calms down. (1 point)	Give it time. If the investment is still down when I check it again in a few weeks, I'll sell. (2 points)	Hold on for a few more months. If the investment hasn't produced a positive return by the end of the year, I'll sell it then. (3 points)	Hold on. I feel comfortable with my investment choice, and the decline is probably only temporary. I will continue to watch the investment closely. (4 points)
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5. Frequency of review: *How often do you look at your investment portfolio?*

I haven't really spent time looking at my investments. I try to follow the bottom line between reporting periods, but I don't really understand all of the numbers. (1 point)	I get a quarterly statement and I understand most of it; I do spend time reviewing it. (2 points)	I look at my investments at least monthly. If necessary, I make changes to my investments, and I'm relatively comfortable doing so. (3 points)	I track my portfolio on a daily or weekly basis. I follow investment performance and portfolio management, making changes when appropriate. (4 points)
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Your Profile Score (add all of your points from each question)

Total Score _____

- 5 to 7 Points:** **CONSERVATIVE:** You may want to stick to more conservative investments such as money market funds and government bonds. Proceed cautiously if you decide to invest in stocks and try to focus on the long-term nature of your investments.
- 7 to 15 Points:** **MODERATE:** You seem willing to take some risk. You would probably be most comfortable in a balanced portfolio with a mix of stocks and bonds.
- 15 to 20 Points:** **AGGRESSIVE:** You have a high risk tolerance. It may be appropriate for the majority of your portfolio to be invested in stocks, depending on your time frame.

3 REVIEW SAMPLE ASSET ALLOCATION MODELS

Now that you know your time horizon and risk profile, you can make some asset allocation choices. The chart on the next page provides sample allocations based on these factors. Remember, these guidelines are for illustrative purposes only, and should serve merely as a starting point for your decisions. Don't forget that some goals have multiple time horizons. If you are planning to retire in the next 5 years, it can actually be a long-term goal if you plan to be in retirement for 20 years.

GOAL		RISK TOLERANCE					
		Conservative		Moderate		Aggressive	
TIME HORIZON	Short Less than 5 yrs	Stocks	0%	Stocks	0%	Stocks	0%
		Bonds	0 - 10%	Bonds	30 - 40%	Bonds	50 - 60%
		Cash	90 - 100%	Cash	60 - 70%	Cash	40 - 50%
	Intermediate 5 - 10 yrs	Stocks	0%	Stocks	20 - 30%	Stocks	40 - 60%
		Bonds	40 - 50%	Bonds	40 - 60%	Bonds	40 - 60%
		Cash	50 - 60%	Cash	20 - 30%	Cash	10 - 20%
	Long Over 10 yrs	Stocks	30 - 40%	Stocks	50 - 60%	Stocks	75 - 85%
		Bonds	40 - 60%	Bonds	30 - 40%	Bonds	10 - 20%
		Cash	10 - 20%	Cash	10 - 20%	Cash	5 - 15%

*The hypothetical portfolios reflect potential investment strategies based on commonly accepted guidelines and historical rates of return. These illustrations should **NOT** be construed as advice to meet the particular needs of any investor. You should adjust your own portfolio based on your individual savings goals, risk tolerance and time horizon. The final decision is always yours, although you should consult a financial professional should you have questions about your portfolio objectives or allocations.*

④ BALANCE RISKS, TIME FRAMES AND INVESTMENTS

Only you can decide the appropriate investment mix that is right for you. By understanding these three components you will be better prepared to make investment decisions. The final decision is always yours!