DEBTMAN
BRUCE BRAMMALL

Volvo engineer … or Evel Knievel? Your risk profile!

What sort of risk-taker are you?

Some people are naturally the safety-first types. They would have felt right at home working in 1980s Sweden in an office full of Volvo engineers, who ranked safety first, second, third and fourth. At Volvo, sophistication, glamour, ease of driving, street cred, looks and comfort took (pardon the pun) a back seat.

At the opposite end of the scale are the true daredevils – Evel Knievel soaring on his motorbike over double-decker buses on his way to breaking more than 40 bones.

In between lie the majority. Some are Richie Cunningham (just very, very average), others more your Arthur “The Fonz” Fonzarelli (“He-e-e-e-y!”).

Profiler – by the numbers

This simple test will rank you into one of six different risk categories and will help you get an idea of your own attitude to risk. Circle the number next to the answer that most closely suits you.

Question 1: How far away is the next major financial goal you’re working to achieve?

1 Less than one year
2 1-3 years
3 3-7 years
4 More than 7 years

Question 2: Keeping in mind that achieving higher returns requires higher risks to be taken, approximately what annual rate of return would you feel comfortable seeking?

1 Less than 5% return (minimal risk)
2 5 – 10% return (medium risk)
3 Above 10% return (high risk)

Question 3: Assuming you have an amount of money to invest today, how would you invest it?

1 The safety of my money is my primary objective. I would rather have a low rate of return than risk the loss of any part of my capital.

2 I want my investment to produce the current income I need and my capital should remain relatively stable.
3 I am willing to accept some fluctuation in my capital over the short term in exchange for higher returns over the long term.
4 In order to receive the maximum return on my investment, I am willing to accept a higher degree of risk.

Question 4: Which statement best describes your attitude to tax when it comes to the effect it has on meeting your goals?
1 I do not want to derive tax savings by purchasing investments which may put my capital at risk.
2 I would prefer stable, reliable capital value and returns with some tax savings if possible.
3 I can accept a small reduction in value from time to time in exchange for tax-advantaged income.
4 My main aim is to minimise tax and I am prepared to risk my capital to achieve this aim.

Question 5: Inflation lowers the value of $1 from one year to the next. How concerned are you that your investments/savings earn more than the rate of inflation and therefore maintain their purchasing power?
1 Not concerned.
2 Slightly concerned.
3 Moderately concerned.
4 Highly concerned.
5 Very highly concerned.

Question 6: Have you ever invested your own money (not superannuation) in shares, property or managed funds before?
1 No, but if I had, the fluctuations would make me uncomfortable.
2 No, but if I had, I would be comfortable with the fluctuations in order to receive the potential for higher returns.
3 Yes, I have, but I was uncomfortable with the fluctuations despite the potential for higher returns.
4 Yes, I have, and I felt comfortable with the fluctuations in order to receive the potential for higher returns.

Question 7: How would you feel if your long-term investments declined by 10% in one year?
1 Awful. I can't accept declines in the value of my investments.
2 A bit unsettled, but if the income I received didn't change, I wouldn't be too concerned about my capital declining in the short term.
3 Okay. I generally invest for the long term but would be a little concerned with this decline.
4 Fine. I invest for the long term and would accept that these fluctuations are due to short-term market influences.

Question 8: Which of the following statements best describes how you would choose your investments if you had to choose them yourself?

2 I would select investments that have a low degree of risk. I could not accept negative returns in my portfolio.
4 I would prefer to diversify with a mix of investments which have an emphasis on low risk. I would have only a small portion of the portfolio invested in higher-risk assets. I would accept a negative investment return of 1 in 9 years.
6 I prefer to have a spread of investments in a balanced portfolio. I would accept a negative investment return of 1 in 7 years.
8 I would place an emphasis on investments which have higher returns, but still having a small amount of low risk investments. I would accept a negative return of 1 in 5 years.
10 I would only select high-growth investments, and understand this would come with higher volatility. My aim is higher, long-term returns. I would accept a negative return of 1 in 3 years in order to achieve this goal.

Add up the numbers next to your answers and match it with one of these risk profiles.

9-13: Capital safe (1)
A Capital safe investor does not want to take any investment risk. Your priorities are the safeguarding of your investment capital. You are prepared to sacrifice higher returns for peace of mind. The most appropriate investment strategy is 100 per cent income-based investments.

14-18: Defensive (2)
Defensive investors are prepared to accept a small amount of risk. Your priority remains preservation of capital over the medium to long term. You may have some understanding of investment markets, however you don't want to take unnecessary chances with your capital. The recommended investment strategy is 80 per cent income, 20 per cent growth.

19-23: Conservative (3)
Conservative investors have some understanding of market behaviour. You do not wish to see all of your capital eaten away by tax and inflation and are prepared to take small short-term risks in order to gain longer-term capital growth. An investment strategy of 60 per cent income, 40 per cent growth, would be suitable.

24-28: Balanced (4)
Balanced investors seek a greater growth component from their investments to protect capital from tax and inflation. You remain cautious towards taking high risks, however you feel comfortable with some short-term risk. Your priority is consistent capital growth with some income to smooth your returns. You should have 60 per cent of your investments in growth and 40 per cent in income-based investments.

29-33: Growth (5)

Growth investors understand the volatility of investment markets. You are most interested in maximising long-term capital growth, although you do not wish to make unbalanced investment decisions. You are happy to sacrifice short-term safety in order to maximise long-term capital growth. Your most appropriate investment strategy would be 80 per cent growth, 20 per cent income.

34 and over: High Growth (6)
High Growth investors have long-time horizons for investment capital, because they are pursuing the highest returns reasonably possible. You have an understanding of the behaviour of investment markets and are interested in reducing your taxable income. The most appropriate investment strategy is 100 per cent growth.

So, where does this lead us? The table below shows how these risk profiles play out into an investment strategy. The column labeled "1" is for "Capital safe" investors and the column labeled "6" is for "High Growth" investors.

Table: Risk profiles and investment

Asset Class	Style	1	2	3	4	5	6
Cash	Income	10	10	5	5	5	0
Fixed Interest	Income	90	70	55	35	15	0
Australian Shares	Growth	0	10	20	30	40	50
International Shares	Growth	0	5	15	20	25	35
Property	Growth	0	5	5	10	15	15
Growth/income	-	0/100	20/80	40/60	60/40	80/20	100/0

Understanding your risk profile

It's a simple test. It's not designed to be a psychological masterpiece. Your result in this test shouldn't surprise you.

It's a snapshot of who you are now and should change over your lifetime. Early in your investing life, you may be a little more conservative, as you lack investing experience. With some experience under your belt, your tolerance will probably rise a little. But as you approach retirement, your risk appetite tends to decrease, as you move into a protection phase.

Should my risk profile rule all my investment decisions?

Not unless you let Athena Starwoman's horoscopes rule the rest of your life.

A risk profile is a guide, a starting point. And you shouldn't have the same risk profile for *all* of your investments. For example, you might have a few goals that you're seeking to achieve in two or three years, while others are 8-10 year goals. The former should be in investments that are a little more defensive than the latter.