Risk Tolerance Profile

Client Name: ________________________________

Date: ________________

This questionnaire is used by Financial Pathfinders, LLC to help determine the amount of risk you are willing to take in your investments. The answers are used to foster discussion regarding your risk tolerance towards various methods of investing, and this information will be incorporated into an investment policy statement.

Please feel free to call us if you need additional information to help answer one or more questions. If more than one person is involved in your investment decisions, each person should fill out one of these questionnaires. Please do not work on the answers to this questionnaire together. It is important that each person answers these questions based upon their own particular attitudes towards risk.

Following page 7 is information on how to score the results of this questionnaire. We will score this for you. However, if you wish to score it yourself, feel free to do that. Just follow the directions starting on page 8. Don't hesitate to call us if you have any questions.

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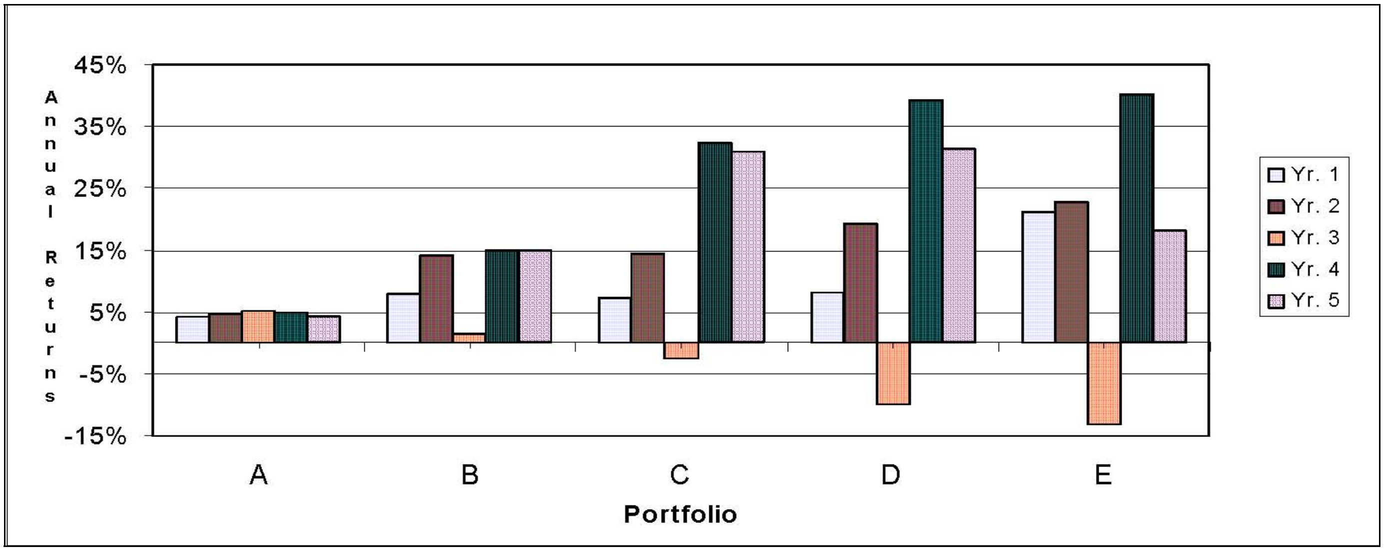
The following tasks or questions are designed to help us understand how you feel about putting your investments at risk. There are no "right" answers to these questions. The correct responses are totally based on your feelings. They provide a beginning point for our future discussions about Risk and Loss.

PART I: Select the one answer that most resembles your attitude toward investing:

□	**I don't want to lose any of my principal under any circumstances, no matter how low my return!**
□	**While I don't want to risk my principal, I want more income than CD's or Money Markets pay.**
□	**If I can get average yields from bonds, it's not worth suffering through the ups and downs of the stock market.**
□	**Although stocks will earn better returns than other types of securities, I will forego some future gains in order to earn a steady stream of income.**
□	**I need predictable income for living expenses, but I consider it essential to have some funds invested where they have the potential for growth.**
□	**I believe in the power of compounding income and the potential for gain from stocks and want a combination of the two, even if that means periodic losses.**
□	**Solid companies in stable businesses should give good results with a level of risk I can tolerate.**
□	**Smaller is better in the long run. Small companies' stocks may be experience more short-term losses but they will reward me with the best long-term results.**
□	**I believe that I can select good companies to own and enjoy the thrill and challenge of ferreting out attractive stocks.**
□	**Higher risk investors will generally earn higher returns, and I want the potential of higher returns even if it means experiencing significant losses for extended periods of time.**

Part II: Five portfolios are depicted below showing their annual percentage return over five successive years. If all of your investments were invested using one of these strategies, which one would you prefer? A B C D or E (circle one)



PART III: Assume you have been presented with two sets of decisions about an investment option. How you got the money or how much you invested is not material. The emphasis is on the two different sets of outcomes. For each of these two decisions, check the option you would choose:

Decision 1 - Choose between:

a. A sure gain of $25,000
b. A 25% chance of winning $100,000 and a 75% chance of winning nothing

Decision 2 - Choose between:

a. A sure loss of $75,000
b. A 75% chance of losing $100,000 and a 25% chance of losing nothing

PART IV: Portfolio Characteristics

This section let's you tell us what you value in a portfolio. We have listed the five characteristics any investment or portfolio can reflect. Identify the importance you place on each characteristic by circling the number which best indicates your set of priorities. Let a 5 indicate great importance and 1 indicate little importance.

Use two sets of constraints in your scoring. **First, <u>Safety of Principal and Growth should total six</u>. Second, make the necessary adjustments so that <u>the total for the five characteristics totals 14</u>.** This means that you should allocate the remaining eight points among the last three characteristics. If you have questions or observations about any of the characteristics, please note those in the Comments section.

CHARACTERISTIC	DEGREE OF IMPORTANCE	COMMENTS
Safety of Principal	1 2 3 4 5	
Growth	1 2 3 4 5	
Current Income	1 2 3 4 5	
Liquidity	1 2 3 4 5	
Tax Reduction	1 2 3 4 5	
Total (should be 14)		

PART V: ***General Portfolio Objective: Which statement best describes your investment objective?*** *(Circle one)*

a) ***<u>Capital Preservation</u> -*** *the safety of investments is most important. Even though the returns may be low, the risk level should mean virtually no chance of losing my money.*

b) ***<u>Income</u> -*** *My main concern is receiving income with some modest growth of my assets.*

c) ***<u>Growth & Income</u> –*** *My main concern is with the growth of my portfolio with only a small emphasis on portfolio income. Investments could include stocks, bonds and cash for diversification and risk management.*

d) ***<u>Growth</u> –*** *My only concern is with the growth of my portfolio, even if this means that my portfolio will experience more "ups and downs" during market cycles.*

e) ***<u>Aggressive Growth</u> –*** *I <u>really</u> want my portfolio to grow aggressively. While this may result in violent swings in value (including periods of major losses), I want to "beat the market" over time.*

PART VI: ***Return and Risk Expectations***

a) What would you consider to be a "reasonable annual rate of return" after your money has been invested over a long period of time? ___________________%

b) Your tolerance for risk can best be described as:

☐	**I can tolerate more than one year of negative absolute returns through difficult phases in a market cycle.**
☐	**I can tolerate two or three quarters of negative absolute returns through difficult phases in a market cycle.**
☐	**I can tolerate infrequent, very moderate losses through difficult phases in a market cycle**

c) What is the maximum loss (or minimum rate of return) you could tolerate in any one year, expressed as a percentage of your portfolio (i.e., 2%, 0%, -2%, -5%, -10%, -15%, -20%)? ____%

PART VII: Investment Objective Analyzer

Please select the answer that fits you the best for each question on the next two pages, marking the appropriate box. There are no "right" or "wrong" answers. Everyone has his or her own level of investment knowledge and experience, as well as the level of risk they're willing to take.

1. What is your age?

☐	30 and under
☐	31 - 49
☐	50 – 61
☐	62 and over

2. What do you expect to be your next major expenditure?

☐	Buying a house
☐	Paying for a college education
☐	Capitalizing a new business
☐	Providing for retirement
☐	Other (please describe):

3. When do you expect to use the bulk of the money in your investments?

☐	At any time now, so a high degree of liquidity is necessary
☐	Probably in the next 1 to 5 years
☐	In the next 6 to 10 years
☐	Probably in the next 11 to 20 years
☐	In more than 20 years

4. Over the next several years, you expect your annual income to:

□	Stay about the same
□	Grow moderately
□	Grow substantially
□	Decrease moderately
□	Decrease substantially

5. Due to a general market correction, one of your investments loses 14% of its value a short time after you buy it. What do you do?

□	Sell the investment so you don't have to worry if it continues to decline
□	Hold onto it and wait for it to climb back up
□	Buy more of the same investment … because at the new low price, it looks even better than when you bought it

6. Which of these plans would you choose for your investment dollars?

□	You'd go for maximum diversity, dividing your portfolio among a large variety of investments, including those ranging from highest return/greatest risk to lowest return/lowest risk
□	You're concerned with simplicity, so you would simply divide your portfolio between two investments, each with above average return and risk
□	You would put your investment dollars into the investment with the highest rate of return and most risk

7. Assuming you're investing in a stock mutual fund, which one do you choose?

□	A fund with companies with potential to make significant technological breakthroughs, and whose stocks are still at their low initial offering prices
□	A fund that only invests in established, well known companies that have a potential for continued growth
□	fund devoted to "blue chip," highly diversified stocks that pay dividends

8. Assuming you're investing in only one bond, which bond do you choose?

□	A "junk bond" that pays a higher rate than the next two bonds, but also gives you the least sense of security with regard to a possible default
□	A "treasury bond" which pays the lowest interest of these first three bonds but is backed by the United States Government
□	The bond of a well established company that pays a rate of interest somewhere between the first two bonds
□	A "tax-free bond" since minimizing taxes is a major concern

9. Indicate the importance you place on actually receiving income from your investments, right now:

□	Essential and must be known
□	Essential but willing to accept uncertainty about the amount
□	Important but other factors also influence
□	A modest amount is desirable
□	I don’t currently need income from my investments

10. Your advisor expects inflation to return and suggests that you invest in “hard assets” such as gold, oil & gas, or real estate, which have historically provided a hedge against inflation. Your only financial assets are long-term bonds. What do you do?

□	Ignore the advice and hold onto the bonds
□	Sell the bonds, putting half the proceeds into hard assets and the other half into money market funds
□	Sell the bonds and put all of the proceeds into hard assets
□	Sell the bonds, not only put all of the proceeds into hard assets, but you borrow additional money so you can buy even more hard assets

11. Your friend is starting a new Internet consulting business and has given you the opportunity to invest. The chance of the business surviving and returning your investment is only 10%. But, if the operation is successful, you could earn 40% on your investment. How much do you invest?

□	Nothing at all
□	One month’s salary
□	Three month’s salary
□	Six month’s salary

12. You have just reached the $10,000 plateau on a popular TV game show. Now you must choose between quitting with the $10,000 in hand or betting the entire $10,000 on one of three alternative scenarios. Which one do you choose?

□	The $10,000 … You take the money and run!
□	You win $20,000 if you guess right on the flip of a coin
□	You win $50,000 if you guess the right box out of five boxes
□	You win $100,000 if you guess the right number between 1 and 10

Scoring the Risk Profile

The scoring of this profile will be done by Financial Pathfinders, LLC. That means you can stop here, and return this questionnaire to us. If you want to see how you score, feel free to review the scoring process described here. Just remember to leave all of your answers as they originally were. Please do not change any answers on the questionnaire after you have reviewed this scoring process.

GENERAL PORTFOLIO OBJECTIVE:

The 1 to 10 Scale (Part I):

These questions are simply arrayed in order of increasing willingness to accept risk. Yet, before explaining the significance of the answer, ask the client directly; "On a scale of one to ten, with ten being wild and crazy and one being metaphysically conservative, how would you score your willingness to accept risk?" Then, convert their score as follows:

Score	Objective	Score	Objective
1	Capital Preservation	6	Growth & Income
2	Capital Preservation	7	Growth
3	Income	8	Growth
4	Income	9	Aggressive Growth
5	Growth & Income	10	Aggressive Growth

Graphical & Direct Approaches to Portfolio Objective (Parts II and V):

Part II graphically presents portfolios that reflect the likely behavior of those five objectives. Part V labels and directly describes the five general objectives.

Modified Kahneman-Tversky Test (Part III):

Decision 1	Decision 2	Risk Preference
a	a	Risk Averse
a	b	Loss Averse
b	a	Disciplined Risk Taker
b	b	Risk Taker

Constrained Portfolio Characteristics (Part IV):

The most important score in this part is the Degree of Importance placed on Growth.

Growth Score	Objective	Growth Score	Objective
1	Capital Preservation	4	Growth
2	Income	5	Aggressive Growth
3	Growth & Income		

Stated Portfolio Risk and Return Expectations (Part VI):

While this part is straightforward the answers should be consistent with the other answers since this is the “bogey” to which you will be held in developing the portfolio. It’s important to confirm that the Risk/Return Characteristics are realistic. If not, additional client education would be in order. The scoring focuses on the “downside” of the “Maximum Loss or Minimum Return over a One-Year Period.”

MAXIMUM LOSS/ MINIMUM RETURN	OBJECTIVE
3.0% or Higher	Capital Preservation
0.0% to 3.0%	Income
-2.0% to 0.0%	Growth & Income
-5% to –2.0%	Growth
-6.0% or Greater	Aggressive Growth

Inferred Objective (Part VII):
For each question, use the “A” column to score the first answer, the “B” column to score the second answer, etc… Then, total the points to infer the client’s overall portfolio objective.

Question	A	B	C	D	E
1.	3	2	1	–	–
2.	1	2	3	2	–
3.	1	2	3	4	5
4.	3	4	5	2	1
5.	1	3	5	–	–
6.	1	3	5	–	–
7.	5	3	1	–	–
8.	5	1	3	1	–
9.	1	2	3	4	5
10.	1	3	4	5	–
11.	1	2	4	5	–
12.	1	2	4	5	–

TOTAL SCORE	OBJECTIVE
10 –16	Capital Preservation
17 – 24	Income
25 – 36	Growth & Income
37 – 46	Growth
47 +	Aggressive Growth

RISK PROFILE SCORING SUMMARY:

Part		Client’s Risk Type	Co-Client’s Risk Type
III	Modified Kahneman-Tversky Test		
	Validation Method	**Client’s Objective**	**Co-Client’s Objective**
I	1 – 10 Scale		
II	Graphical		
IV	Portfolio Characteristics (Constrained)		
V	General Portfolio Objective (Descriptive Statements)		
VI	Return & Risk Expectations (Direct Response)		
VII	Investment Objective Analyzer (Inferred)		

CREDITS:
While the development, order, scoring and synthesis of the various parts is the intellectual property of The Arkansas Financial Group, Inc., the concepts were shaped by the writings of various individuals. Express permission to use this instrument is granted to financial planners serious about having a meaningful discussion with clients about their willingness to accept short-term losses in pursuit of their long-term dreams.

The original "Two-Question Test" developed by Amos Tversky and Daniel Kahneman as it appeared in the June, 1985 issue of Discover, originally used a "sure gain of $240" versus a 25% chance of winning $1,000." The instrument was used to demonstrate that investors would actually accept more risk in order to potentially avoid a loss. We have equalized the probability and increased the amount of money involved so that clients would more seriously evaluate the decisions.

We are indebted to the AIMR proceedings book from a 1986 educational seminar entitled "Asset Allocation for the Individual Investor" (ISBN 0-87094-994-2). Part I is a variation of Lipper's "Reward Expectations" instrument.

Part IV was developed using five of the Portfolio Characteristics found in several instruments, including the American College's Comprehensive Fact Finding Form. The idea of constraining those characteristics evolved from Consolidated Capital's "Orange Juice" concept.

As early as 1991, Wilson & Associates credited a variation of Part VII as first appearing in an American Management Association publication. We've been unable to identify the actual original source. John Grable, PhD, CFP and Ruth H. Lytton, PhD have been measuring the value of these and similar questions to determine which ones have the highest validity for measuring risk tolerance.

Financial Pathfinders, LLC wishes to thank The Arkansas Financial Group for allowing us the use of this form. This was done at the Financial Planners Association seminar in Nashville, TN, in October of 2003.