

## **YOUR GUIDE TO INVESTMENT RISK & OBJECTIVES.**

This guide is intended to explain to you what we mean at Investment Research Group (BOP) Ltd, by investment risk. It will assist you to decide the level of risk that you are prepared to accept and identify your investment objectives.

### **WHAT IS INVESTMENT RISK?**

We define investment risk as the degree of variability in performance of an investment over time. The greater the variability or fluctuation in the performance of a particular investment, the greater its investment risk is said to be. As this performance is directly reflected in the value of an investment, poor performance will usually result in reductions in the value of investments just as good performance will usually result in increases in the value of investment capital.

As many investors are primarily concerned with the possibility of losses to their investment capital, their tolerance to this uncertainty will usually dictate their investment risk category.

### **RISK VERSUS REWARD**

Effectively, there is a trade-off between risk and reward so that the greater the possibility that you could lose capital, the greater the return you can expect from it over the longer term\*. Similarly, investments that could bring limited losses to investment capital will also only provide limited gains to the investment.

### **INVESTMENT RISK CATEGORIES**

We have a range of defined investment risk categories which relate to terminology often used in day to day explanations and our literature. The definition of each category will help you describe your risk tolerance and go some way to assisting you decide which category would be most suitable for you.

#### **1. Defensive**

You do not want any loss in the original value of your capital, (with the exception of the effect of movement in foreign exchange rates). You fully understand and accept that over the long term, the performance of your capital is likely to be lower than investments in stocks and shares and may suffer from the effects of high inflation, but you prefer the security of cash or term deposit based savings.

#### **2. Conservative/Low/Cautious Risk**

You are prepared to see a limited downward fluctuation in the original value of your capital in return for the likely prospect of moderately higher returns in the longer term\* and understand that currency movements may also affect the value of your investment.

#### **3. Balanced /Medium Risk**

You are prepared to see a greater degree of fluctuation in the value of your capital than the Conservative investor, and accept the effect exchange rate movements may have on your investment. By accepting a greater degree of uncertainty over the value of your capital than the Conservative investor, you will have the possibility of receiving a higher level of return in the longer term\*.

#### **4. Growth Risk**

You require minimal income and are willing to accept high levels of volatility in return for potentially higher returns over the long term. You will be aware of the effects of currency fluctuations on the return that you receive from your investments.

#### **5. Aggressive/Adventurous Risk**

You are prepared to accept a higher degree of fluctuation in the value of your capital. For instance, you are prepared to commit a significant proportion of your capital to stocks and shares, with lower emphasis on the short-term security of deposit based savings. You may well be seeing investments which carry a higher risk/rewards profile in order to possibly obtain an even greater return on your capital. You will be aware of the effects of currency fluctuations on the return that you receive from your investments.

### **INVESTMENT OBJECTIVES**

We have identified four possible objectives:

#### **1. Income only**

You are looking for a regular income from your investment. Your investment portfolio will be biased toward providing you with a high level of income from your assets.

#### **2. Mainly income with a little growth**

You are looking for a regular income from your investment. Your investment portfolio will be biased toward providing you with a high level of income from your capital whilst aiming to protect your capital from the effects of inflation over the longer term\* by incorporating some equity/growth content.

#### **3. Some income but mainly growth**

Although you may require income from your investments, you are prepared to accept a lower level of income at present than an Income investor, in exchange for a greater growth in both your income and capital over the longer term\*.

#### **4. Capital growth only**

The level of income produced by your capital is not important to you, as you are concerned with the possible growth of your capital over the longer term\*.

\*Longer term in this context means at least seven to ten years

Person 1: \_\_\_\_\_ Person 2: \_\_\_\_\_

**Please identify your investment objectives from the options below:**

- |  |  |
|--|--|
|  | To develop an appropriate overall investment strategy  |
|  | To protect assets from the effects of inflation  |
|  | To reduce the risk of loss   |
|  | To provide a fund for spending goals   |
|  | To have immediate access to cash to meet income needs  |
|  | To develop a portfolio to provide an ongoing income stream                                   |
|  | To provide an adequate standard of living in retirement                                      |
|  | To minimise personal income taxes  |
|  | To maintain a portfolio of investments that hold a top quartile position against their peers |

**RISK ASSESSMENT QUESTIONNAIRE**

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

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

**Time Horizon**

Score

1. My current age is:
- a. Less than 35 years
  - b. 36-45 years
  - c. 46-55 years
  - d. 56-65 years
  - e. more than 66 years

Person 1	Person 2

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2. I expect to start drawing income from this investment:
- a. Not for at least 20 years
  - b. In 10-20 years
  - c. In 5-10 years
  - d. Not now, but within 5 years
  - e. Immediately

Person 1	Person 2

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**Long Term Goals & Expectations**

3. For this investment portfolio, my goal is:
- a. To grow aggressively
  - b. To grow significantly
  - c. To grow moderately
  - d. To grow with caution
  - e. To avoid losing money

Person 1	Person 2

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4. Assuming normal market conditions what would you expect from this investment portfolio over the long term?
- a. To generally keep pace with the stock market
  - b. To slightly trail the stock market, but make a good profit
  - c. To trail the stock market, but make a moderate profit
  - d. To have some stability but make modest profit
  - e. To have a high degree of stability but make small profits

Person 1	Person 2

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5. Suppose the stock market under-performs normal (8-10% per annum) expectations over the next decade. Then, what would you expect from this investment portfolio?
- To lose money in line with performance of the market
  - To make very little or nothing
  - To achieve a small gain
  - To achieve a modest gain
  - To be only slightly affected by what happens

Person 1                  Person 2


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

**Short Term Risk Attitudes**

6. Which of these statements would best describe your attitude about the next three years performance of this investment portfolio?

Person 1                  Person 2

- I don't mind if I lose money on speculative investments
- I am prepared to see my investments decline in value provided this would give prospects of superior returns over the long term
- I am prepared to see my investments reduce in value for a period of up to two years provided there are positive prospects of achieving real returns over the longer term
- I would be comfortable with my investments losing value provided they quickly returned to their original value and began to make positive returns
- The risk of my investment losing value (even temporarily) is unacceptable. I do not want to see my portfolio lose money at any time


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7. Which of these statements would best describe your attitude about the next three months performance of this investment portfolio?

Person 1                  Person 2

- My primary concern is to see my capital grow in real terms well above inflation, one calendar quarter means little
- I wouldn't worry about losses in that time frame
- If I suffered a loss of greater than 10%, I would get concerned
- I can only tolerate small short-term losses
- My investments must generate a steady income stream, I would have a hard time stomaching any losses


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**TOTAL** .....

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.

Client Signature:.....

Client Name: .....

Adviser Signature:.....

Adviser Name: ..... Date.....

\*Circle the risk profile corresponding with the grand total