

Evaluating Your Risk Tolerance

by Steve Gilbertson

If you are like many people, the task of selecting specific investments for your retirement account can be a daunting one. With so many fund choices available, it is often hard to even know where to begin with the selection process. A good starting point for selecting or reviewing these investments is assessing how much risk you are comfortable taking with your retirement account. This can help guide you to a portfolio of investments that puts your mind at ease while still maximizing returns at your particular level of risk tolerance.

The questionnaire given below can be used to help you determine this risk tolerance:

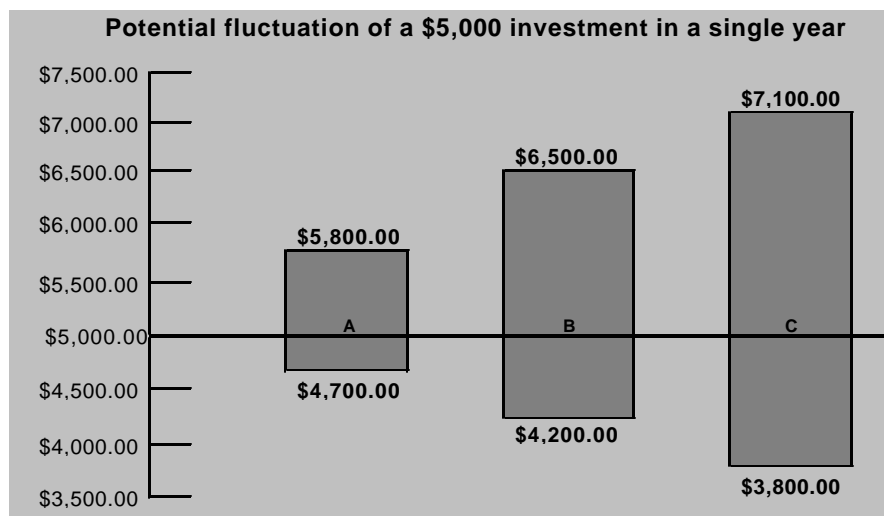
1. When do you plan to retire?

- A) In less than two years
- B) In two to four years
- C) In five to seven years
- D) In eight to 10 years
- E) In more than 10 years

2. How would you describe your investment knowledge?

- A) I know nothing or very little about mutual funds and investing in general.
- B) I have some knowledge about mutual funds and investments.
- C) I am well-informed about mutual funds and the world of investing.

3. The following graph shows the potential fluctuation in value of three hypothetical portfolios in a given year. The original amount invested was \$5,000. The amounts shown represent the potential range in values of this \$5,000 investment after one year.



In which of the three given portfolios would you prefer to invest?

- A) Portfolio A – Lower risk, Lower return
- B) Portfolio B – Moderate risk, Moderate return
- C) Portfolio C – Higher risk, Higher return

4. How would you respond to the following statement regarding your portfolio?

“I am willing to accept greater risk in order to achieve potentially higher investment returns over the long term.”

- A) Strongly disagree
- B) Disagree
- C) Neutral
- D) Agree
- E) Strongly agree

5. How would you respond to the following statement regarding your portfolio?

“I am investing to save for retirement and therefore do not expect to take a loan (if applicable) or withdrawal from my retirement account.”

- A) Strongly disagree
- B) Disagree
- C) Neutral
- D) Agree
- E) Strongly agree

6. If the value of your retirement account dropped significantly in one year, what would you do?

- A) I would move the money to more conservative investments to reduce the potential for loss in the future
- B) I would consider moving my money to more conservative investments if the loss continued
- C) Nothing – I am primarily concerned with long-term performance. Short-term fluctuation, therefore, will not affect my investing decisions.

Scoring

-For Questions #1, #4, and #5: A = 1 point, B = 2 points, C = 3 points, D = 4 points, E = 5 points

-For Questions #2, #3, and #6: A = 1 point, B = 3 points, C = 5 points

(26 points – 30 points) – **Aggressive Investor**

(21 points – 25 points) – **Moderately Aggressive Investor**

(16 points – 20 points) – **Moderate Investor**

(11 points – 15 points) – **Moderately Conservative Investor**

(6 points – 10 points) – **Conservative Investor**

Aggressive Investor

- You can tolerate significant ups and downs of the market
- You have a time frame of ten years or more
- This risk tolerance has historically offered the highest return over the long term

Moderately Aggressive Investor

- You can handle some market fluctuation
- You have a time frame of 5 years or more
- This risk tolerance has historically offered relatively high returns over the long term

Moderate Investor

- You might have a high risk tolerance and a time frame of 1 to 5 years
or
- You might have a moderate risk tolerance and a time of frame of 5 to ten years
or
- You might have a low tolerance and a time frame of 10 years or more
- This risk tolerance has historically offered moderate returns over the long term

Moderately Conservative Investor

- You might have a low risk tolerance and be nearing retirement
or
- You might have a moderate risk tolerance and have a time frame of 1 to 5 years
- This risk tolerance has historically offered relatively low returns over the long term

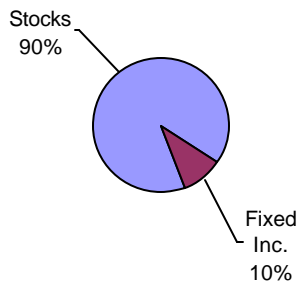
Conservative Investor

- You have little or no tolerance for the ups and downs of the market
- You have a time frame of 5 years or less
- This risk tolerance has historically offered the lowest returns over the long term

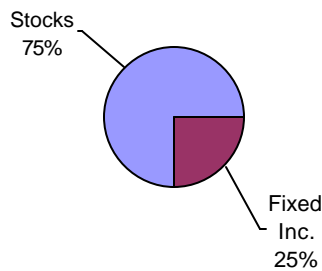
Sample Portfolios

The sample portfolios given below are examples of how you might decide to invest within your retirement account based on your risk tolerance/time horizon. **These are guidelines, not recommendations.** Please consider your particular situation in customizing your personal investment strategy.

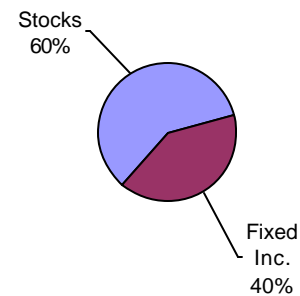
Aggressive



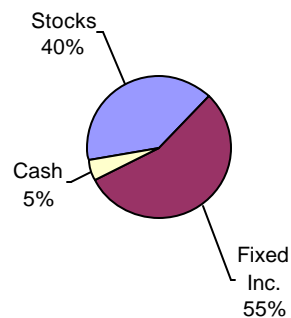
Moderately Aggressive



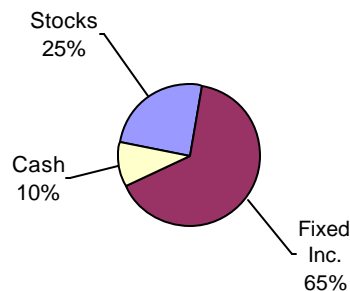
Moderate



Moderately Conservative



Conservative



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