ASSETHOUSE
PRIVATE WEALTH MANAGEMENT

RISK CAPACITY SURVEY

This survey is one of the single most important steps of your investment planning process. You may want to refer to the explanations/hints that appear below some of the questions. This survey is designed for you to analyse your entire portfolio.

TIME AND LIQUIDITY

1. Assume your investments do not increase in value. Within how many years do you plan to withdraw 20% or more of all your investments?

☐ Less than 2 years
☐ More than 2 but less than 5 years
☐ More than 5 but less than 7 years
☐ More than 7 but less than 10 years
☐ More than 10 years

Hint - There are five dimensions to risk capacity, one of which is time horizon and liquidity needs. The sooner you withdraw 20% of your investments, the lower your risk capacity. Longer time horizons reduce the risk of needing your money when your assets have declined in value.

2. Assume your investments do not increase in value. Within how many years do you plan to withdraw 50% or more of all your investments?

☐ Less than 2 years
☐ More than 2 but less than 5 years
☐ More than 5 but less than 7 years
☐ More than 7 but less than 10 years
☐ More than 10 years

Hint - The holding period for your investments is the most important dimension of your risk capacity. The longer you hold your portfolio, the better.

3. How old are you? If this investment is meant to be passed on to your heirs, please indicate their average age instead of your own age.

☐ 40 or younger
☐ 41-50
☐ 51-55
☐ 56-60
☐ 61 and over

Hint - The age of an investor or the average age of an investor's heirs is one component that helps determine an investor's the time horizon and liquidity needs. The lower an investor's age, the more time there is to experience multiple market cycles; thus, the higher the investor's risk capacity.

4. In addition to your long-term investments, approximately how many months of your current expenses do you have set aside in cash or money market funds for unexpected needs?

☐ 6 months

☐ 5 months

☐ 4 months

☐ 3 months

☐ None

Hint - If you have six months of your monthly expenses set aside in cash or money market funds, it is less likely that you will need to withdraw funds from your portfolio. This increases your risk capacity because it will be less likely that you will need to withdraw funds while your investments are in a down cycle.

5. Within how many years will you start withdrawing funds from your investments for the education of your children?

☐ Less than 2 years

☐ More than 2 but less than 5 years

☐ More than 5 but less than 7 years

☐ More than 7 but less than 10 years

☐ More than 10 years or not at all

Hint - If your education expense requirements are less than 10% of your total investable assets, or you plan to pay them out of current cash flow, or you have no education expenses in the future, choose "more than 10 years or not at all."

Net Worth

6. What is the estimated value of your assets minus your liabilities? In other words, calculate what you own minus what you owe. This includes the capital invested in your home, your discretionary and retirement investments, the value of rental properties, business ownerships and share options less any loans, mortgage bonds, etc.

☐ Less than $100,000

☐ $100,001 to $250,000

☐ $250,001 to $500,000

☐ $500,001 to $1,000,000

☐ $1,000,001 or more

Hint - The higher your overall net worth, the more capacity you have to withstand a market decline.

7. What is the current value of your medium to long-term investment assets only, including your regular savings accounts, equity, bond and hedge funds/accounts, retirement savings with your employer/ self, and your property investments (exclude your primary residence)?

☐ Less than $100,000

☐ $100,001 to $250,000

☐ $250,001 to $500,000

☐ $500,001 to $1,000,000

☐ $1,000,001 or more

Hint - The more assets you have, the more capacity you have to withstand a market decline.

8. What is the estimated value (present value) of any potential future inheritance, donation, gift, etc. that you may one day benefit from?

☐ Less than $100,000
☐ $100,001 to $250,000
☐ $250,001 to $500,000
☐ $500,001 to $1,000,000
☐ $1,000,001 or more

Hint - Each individual's personal circumstances are unique. Risk profiles and investment objectives must be dynamic and account for the ongoing changes to an investor's lifestyle.

Investment Knowledge

9. What is your level of education?

☐ High school
☐ College/technical diploma
☐ University degree
☐ Honour's degree
☐ Doctorate or professional degree (CFA, CA, MBA, etc.)

Hint - The purpose of this question is to determine your knowledge of statistics and probability analysis. Usually, the higher the level of your education, the more exposure you have to these important concepts. An understanding of statistics is particularly important in areas of risk management. Investing pertains primarily to risk management.

10. Which 3 risk factors best explain 90% of the variability of stock market returns:

☐ Market risk, company size risk (market capitalisation), and value risk (NAV)
☐ Interest rate risk, currency risk, and central bank policy
☐ Company growth rate, earnings per share, and analyst reports
☐ Industry risk, five-year sales growth rate, and five-year earnings growth rate
☐ CEO's life expectancy, brand recognition, and research ratings

Hint - Companies whose share prices are closest to their net asset values have had the highest historical returns. Small company shares have outperformed large company shares and equities in general have outperformed bonds over the long -term. There are long-term historical risk premiums associated with each factor.

11. How many years have you been investing in the stock market?

☐ None
☐ Less than 1 year
☐ More than 1 but less than 5 years
☐ More than 5 but less than 10 years
☐ 10 years or more

Hint - The longer you have been invested in the stock market, the more market cycles you have experienced, leading to a more thorough understanding of investing.

12. In a recent study of 147 large investment funds, researchers studied the contribution of stock picking, market timing, and asset allocation to long-term returns. What percentage of returns was the result of asset allocation, as measured by a portfolio of index funds?

☐ More than 90%

☐ 70%

☐ 50%

☐ 30%

☐ Less than 5%

Hint - Relative to the proper index fund benchmark, the expected return from most active fund managers is negative. Therefore, nearly all returns are the result of asset allocation. Stock picking and market timing provide little value as investment strategies.

13. When 1,000 investors were given a test of 20 basic questions regarding investing, the average percent of correct answers was:

☐ 94%

☐ 82%

☐ 63%

☐ 51%

☐ 39%

Hint - The Vanguard/Money Magazine Investor Literacy Test was administered in 2000 and 2002. The test's results indicated that the average investor lacks even a rudimentary knowledge about investing. This is the primary cause of their poor returns compared to the market averages.

14. Price Waterhouse Coopers, a major international accounting firm, performed an analysis of the first 25 years of index tracker funds. They determined that the main reason investors did not invest in index funds was:

☐ The emotional drive, desire, or need to beat a market index

☐ The high fees of index funds

☐ The poor performance of index funds

☐ The limited selection of index funds

☐ The high taxes generated by index funds

Hint - Investors are driven to win. In a random and efficient market, beating a market index is a matter of luck, not skill.

15. Over the past 10 years (2002 to 2011), what was the annualised rate of return and annualised risk (standard deviation) of the MSCI World Equity index (in USD terms)?

☐ 2.3% annualised return and 4% standard deviation (this means that the return was 2.3%, plus or minus 4%, 68% of the time).

☐ 4.4% annualised return and 8.1% standard deviation

☐ 4.8% annualised return and 14.6% standard deviation

☐ 7.9% annualised return and 14.2% standard deviation

☐ 2.0% annualised return and 16.9% standard deviation

Hint - Knowledge of long-term risk and return data is essential to efficient portfolio construction. Risk data is unknown to virtually all investors, yet it is required information for portfolio construction.

SAVINGS AND LIQUIDITY

16. Estimate your annual living expenses and divide them by your available investable assets and retirement savings. What percentage do you get?

- ☐ Less than 5%
- ☐ More than 5% but less than 12%
- ☐ More than 12% but less than 18%
- ☐ More than 18% but less than 25%
- ☐ 25% or more

Hint - The point of this question is to determine the rate of return on your investments needed to maintain your current standard of living in your retirement. If it is below 12%, you are in pretty good shape to take on more risk exposure. If it is more than 12%, your capacity for risk is reduced and may require a reduction in your expenses.

17. What is your annual income from your employment or business interests after the deduction of taxes (exclude income from savings and investments)?

- ☐ Less than $50,000
- ☐ $50,000 to $99,999
- ☐ $100,000 to $199,999
- ☐ $200,000 to $499,999
- ☐ $500,000 or more

Hint - The higher your after-tax income, the higher capacity you have to withstand the risk of an extended market correction. Depending on your spending levels, the probability of needing to withdraw from your long-term investments before retirement will be influenced by your after-tax income.

18. What is an after-tax estimate of your recent annual income from your savings and investments, including capital gains, interest income, dividends, and property rentals?

- ☐ Less than $50,000
- ☐ $50,000 to $99,999
- ☐ $100,000 to $199,999
- ☐ $200,000 to $499,999
- ☐ $500,000 or more

Hint - When investment income is lower, the probability increases that you will need to withdraw funds from long-term investments, thereby lowering your risk capacity.

19. I expect my employment and/or business income to increase at or above the rate of inflation, which has averaged 6.0% over the last 10 years.

- ☐ Strongly agree
- ☐ Agree
- ☐ Somewhat agree
- ☐ Disagree
- ☐ Strongly disagree

Hint - This question pertains to your income and savings level, one factor that determines your risk capacity.

20. More or less, by how much have your long-term investments grown over the past two years? This should include withdrawals, additions, income, and capital gains.

☐ Not at all; my investments have declined

☐ Up to $50,000.

☐ More than $50,001, up to $100,000

☐ More than $100,001, up to $300,000

☐ More than $300,001

Hint - This question refers to your personal annual net profit and reflects how much you are saving each year. The more your investments grow each year, the higher your capacity to accept risk.

Attitude Towards Risk

21. What is the worst twelve-month unrealised percentage loss you would tolerate for your long-term investments, beyond which you would sell some or all of your investment?

☐ -33%

☐ -26%

☐ -18%

☐ -9.50%

☐ Zero; any loss is unacceptable to me

Hint - Risk is defined as the possibility of loss. Higher expected returns require higher expected risk. Therefore, higher expected returns require periods of higher expected unrealised losses.

22. In October 1987, stocks fell by over 20% in one day. If you owned a risky investment that fell by 20% over a very short period, what would you do?

☐ Sell all the remaining investment

☐ Sell 75% of the remaining investment

☐ Sell 50% of the remaining investment

☐ Sell 25% of the remaining investment

☐ Hold on to the investment

Hint - Having to sell your investments prior to a need for cash indicates that your risk exposure exceeds your risk capacity.

23. During time periods of market declines, I prefer to sell off my riskier assets and put the money into safer assets.

☐ Strongly agree

☐ Agree

☐ Somewhat agree

☐ Disagree

☐ Strongly disagree

Hint - The selling of all or portions of your portfolio in a market decline indicates that your risk exposure is too high for your risk capacity.

24. On a scale of 1 to 100, with 100 being the most risk, what is your estimate of a proper risk exposure for your entire investment portfolio? This answer should not be dependent on current market events.

☐ A low risk exposure of 5 or less, which has about 25% cash, no equity and 75% or more in bonds. This portfolio has a standard deviation of about 5

☐ A risk exposure of 30, which has 50% cash, 20% equity and 30% in bonds. This portfolio has a standard deviation of about 7

☐ A middle level risk exposure of 50, which has 25% cash, 45% equity and 30% in bonds. This portfolio has a standard deviation of about 10

☐ A risk exposure of 70, which has no cash, 60% equity and 40% in bonds. This portfolio has a standard deviation of about 15

☐ A high level risk exposure of 90 to 100, which has no cash, 100% equity and no bonds. This high-risk portfolio has a standard deviation of about 20

Hint - Do your best on this question, but be aware that we may recommend a different portfolio based on all of your answers in this survey.

25. Making a great deal of money is important to me.

☐ Strongly agree

☐ Agree

☐ Somewhat agree

☐ Disagree

☐ Strongly disagree

Hint - Making money requires a strong desire to take risks.

26. Based on $100,000 invested over 10 years from 2002 to 2011, the following choices show the highest twelve-month gain and the highest twelve-month loss of five different portfolios. Generally speaking, portfolios with wider ranges of outcomes have higher expected returns. Which portfolio would you choose?

☐ Gain of $18,500, loss of $1,400

☐ Gain of $25,900, loss of $9,400

☐ Gain of $33,700, loss of $18,000

☐ Gain of $44,700, loss of $26,000

☐ Gain of $50,900, loss of $48,400

Hint - Generally speaking, portfolios that are tilted towards equities over long time periods are volatile and have higher expected returns.

Congratulations! You have just completed the most important step in your investment process. Your no-obligation results will be presented by your advisor with an analysis of your five dimensions of risk capacity.