



WHAT IS YOUR RISK PROFILE?

16 February 2022

How does your risk profile shape your investments? In this article we explore:

- ▶ **What is risk profiling and why it is so important**
- ▶ **The five risk profile levels and what they mean**
- ▶ **How we use risk profiling to strengthen your goals and investments**

"RISK PROFILING IS AN IMPORTANT PART OF HOW WE CREATE A FINANCIAL STRATEGY THAT ALIGNS WITH YOUR INVESTMENT MINDSET AND GOALS."

Compared to others, how do you rate your willingness to take financial risks?

- Extremely low risk taker
- Low risk taker
- Average risk taker
- High risk taker
- Extremely high risk taker

What was your answer?

Assessing risk is a critical element of investing. For example, if you want to buy shares that are predominately geared for high growth, you don't want to be someone who worries about fluctuations in the market and wants to protect their capital.

Risk profiling is an important part of how we create a financial strategy that aligns with your investment mindset and goals. It's why we assess your appetite for risk in your first Discovery Appointment with us, and then check back in at your annual review to see if we need to make any adjustments.

In this latest article for our clients we give you a snapshot of our risk profiling process, showing you how we use these results to shape your investment choices and objectives.

WHAT IS YOUR RISK PROFILE?

How we identify your risk profile

To understand how much risk you're willing to take, we start by asking you a series of questions to provide insights into your mindset and attitudes towards investing.

Your risk profile.

Questions like:

WHEN YOU ARE FACED WITH A MAJOR FINANCIAL DECISION, ARE YOU MOST CONCERNED ABOUT THE POSSIBLE LOSSES OR THE POSSIBLE GAINS?

- ▶ Life insurance
- ▶ Total and Permanent Disability (TPD)
- ▶ Trauma (Serious Illness)
- ▶ Income Protection

Or

IF YOU OWNED A SHARE INVESTMENT TODAY THAT LOST ABOUT 30% IN 3 MONTHS, WHAT WOULD YOU DO?

- ▶ Sell all of the remaining investment
- ▶ Sell a portion of the remaining investment
- ▶ Seek information before making a decision
- ▶ Hold onto the investment (do nothing) and wait for it to recover
- ▶ Buy more of the investment as it is now less expensive

Each question has a score attached, with the sum of all your answers reflecting the level of your risk profile.

It's a simple yet highly effective way of identifying and exploring your behaviours towards risk and how this can shape the decisions we make together. We also do it alongside your goal setting to make sure they are both aligned.

YOUR INVESTMENT RISK ASSESSMENT					
TOTAL SCORE					
Points	0 - 30	40 - 90	100 - 140	150 - 190	200 +
Risk Profile	Cash	Conservative	Balanced	Growth	Aggressive
Target Mix	100% Cash	70% Defensive 30% Growth	50% Defensive 50% Growth	95% Growth 5% Defensive	70% Growth 30% Defensive
Risk Rating	1 / 10	3 / 10	5 / 10	7 / 10	9 / 10

WHAT IS YOUR RISK PROFILE?

The five risk profile levels

We categorise our investment risk profiling into five distinct levels:

CASH PROFILE

This person likes to play it very safe and prefers cash. They look for 100% defensive investments. This provides them with a very low level of fluctuation, but also a very low level of return. Timing is often important for this person, such as someone getting close to drawing on their superannuation.

CONSERVATIVE PROFILE

This person is prepared to introduce some growth into their investment mix but is still heavily weighted towards defensive. Their mix is 30% growth / 70% defensive. Timing is also often a factor for this person, or they may be new to investing and want to take a very cautious approach.

BALANCED PROFILE

As the name suggests, this person prefers to have an equal mix of growth and defensive investments – a 50/50 split. They are prepared for market fluctuations and are looking for long-term growth, but are still cautious in their approach to building their investments.

GROWTH PROFILE

This person is willing to take on more risk, with a split of 70% growth / 30% defensive. Timing is not an issue and they are looking for strong returns and not worried about market fluctuations. Often this person is in the early stages of their investment journey and happy to take on more risk.

HIGH GROWTH PROFILE

This person is all-in when it comes to investments, with a split of 90% growth / 10% defensive. They are definitely in it for the long-term and looking for an aggressive range of high growth assets that will deliver maximum returns, knowing that they will likely experience constant fluctuations in the market given their higher risk. They are happy to ride out the lows to take advantage of the highs.

YOUR INVESTMENT RISK ASSESSMENT					
		0 - 3	4 - 10	11 - 20	20 +
Investor Mindset	Time frame until all funds are needed (Years)				
	Optimistic	Conservative	Growth	Aggressive	Aggressive
	Relaxed	Conservative	Balanced	Growth	Aggressive
	A bit worried	Cash	Conservative	Balanced	Growth
Losing sleep	Cash	Conservative	Conservative	Balanced	

WHAT IS YOUR RISK PROFILE?

"OUR ULTIMATE GOAL IS FOR YOU TO LIVE YOUR GOOD LIFE, AND OUR RISK PROFILING IS JUST ONE OF THE MANY TECHNIQUES WE USE TO HELP YOU ALONG THIS JOURNEY."

So how do we use your risk profile?

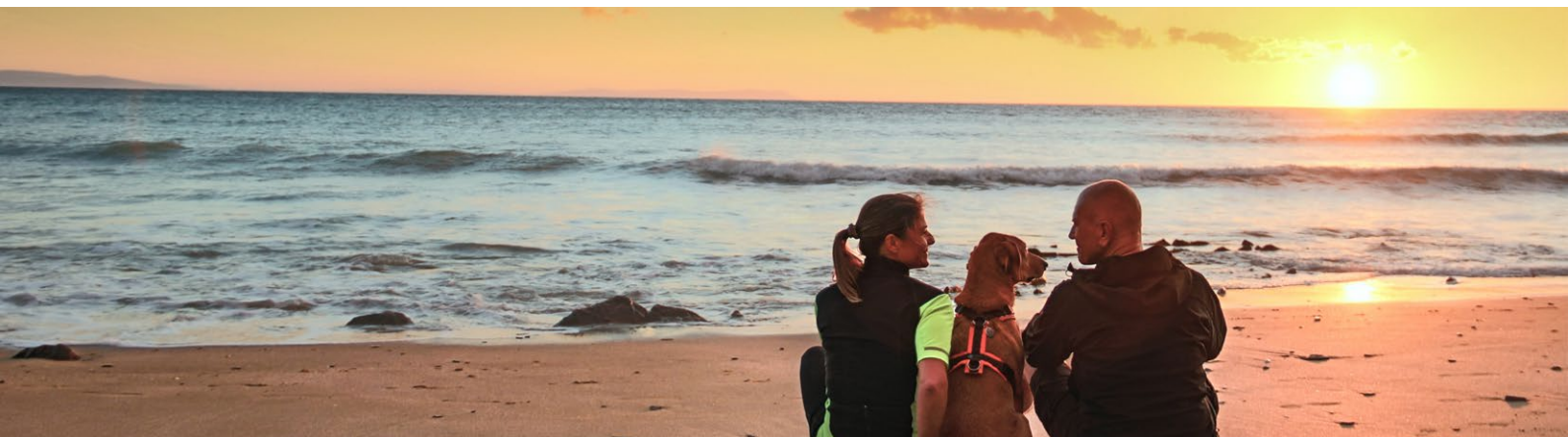
Anytime you invest, whether it's for your super or creating your own share portfolio, you need to align the amount of risk you're taking with your short and long-term goals. If you need access to capital in the next one or two years, you don't really want to be investing in shares that are expected to fluctuate and put that capital at risk.

Our risk profile exercise doesn't just provide a clear picture of how you view and react to risk, it also enables us to explore your investment options if you have competing objectives. It can lead to discussions like: knowing your profile are you willing to accept a bit more risk in order to achieve your goals? Maybe you want to retire with an annual income of \$80,000, but it's clear that a conservative approach to investing won't get you there.

Alternatively, we might need to discuss the possibility of adjusting your goals as your mindset is firmly geared towards only accepting a minimal amount of risk.

These are healthy discussions to have, especially as your risk profile is strongly connected to your financial wellbeing – that feeling of security and freedom to make choices.

Our ultimate goal is for you to live your Good Life, and our risk profiling is just one of the many techniques we use to help you along this journey.



If you would like more information on risk profiling or discuss any aspect of your financial wellbeing, please speak to one of our Tribe today.