Risk – How Much Can You Take?

Investment objectives and goals differ from person to person. The question of how much "risk" to take is thus a personal one — no one answer is correct for everyone. Risk is the possibility that an investment could result in a loss because of swings in the financial markets.

A young person without family commitments or a housing loan to repay might be happy investing in higher risk instruments like stocks. On the other hand, a middle-aged person with family and a housing loan to repay might be more comfortable investing in "less risky" instruments, e.g. a balanced fund in which investors' funds are invested in a mixture of stocks and bonds.

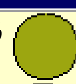
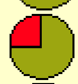
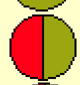
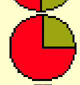
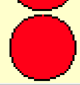
Only you can decide what risk/return trade-off you are comfortable with, but the following questions may help you assess your tolerance or attitude towards risk-taking.

RISK TOLERANCE QUESTIONNAIRE

Please answer the five questions below by noting the points awarded to the answer that best represents your investment goals and circumstances. The total points from all five questions will determine your score.

A	Depending on the investment, the value of your assets can remain relatively stable (generally increasing slowly but steadily) or may fluctuate (rising and falling in response to market movements). In general, investments that fluctuate have the potential to grow faster; however, they are more risky than stable investments. How much fluctuation are you willing to accept for your savings?
points	
1	*I do not want to experience any falls, even if it means my investment returns are relatively small.*
5	*I would be willing to accept occasional falls as long as my savings are in sound, high-quality investments that could be expected to grow over time.*
9	*I am willing to take substantial risk in exchange for significantly higher potential returns.*
B	Some investments may keep your money "safe", but may not earn a high return. (Consider what S$100 would purchase both 10 years ago and today.) Choose the statement that is most accurate for your investment savings goal.
points	
1	*My savings should be 100% safe, even if it means my investment returns do not keep up with inflation.*
5	*It is important that the value of my investments keep pace with inflation. I am willing to risk an occasional fall in the value of my original investment (my principal) so my investments may grow at about the same rate as inflation over time.*
9	*It is important that my investments grow faster than inflation. I am willing to accept a fair amount of risk to try to achieve this.*

C	You understand the value of your investment portfolio will fluctuate over time. This means it will rise and fall in response to market movements. What is the maximum loss of value you could accept in any one-year period?
points	
1	*0%*
3	*5%*
5	*10%*
7	*20%*
9	*30%*

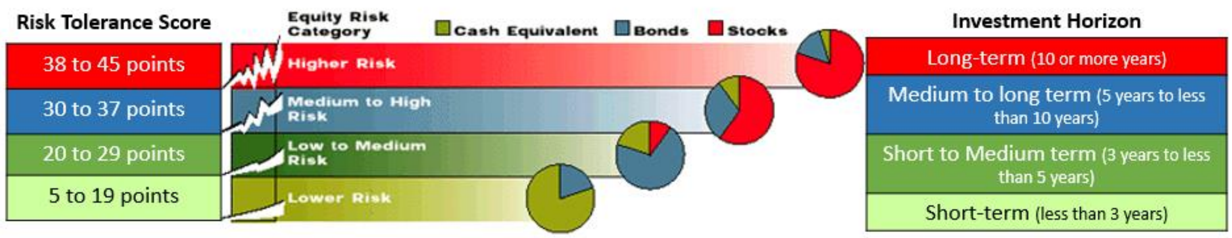
D	Consider two hypothetical investments, A and B: • Investment A provides an average annual return of 3% with a minimal potential fall in the value of the original investment (the principal). • Investment B provides an average annual return of 7% but the value of the original investment (the principal) may decline 20% or more in any year. How would you choose to invest your retirement savings in these two investments?
points	
1	*100% in Investment A and 0% in Investment B.* 
3	*75% in Investment A and 25% in Investment B.* 
5	*50% in Investment A and 50% in Investment B.* 
7	*25% in Investment A and 75% in Investment B.* 
9	*0% in Investment A and 100% in Investment B.* 

E	This question gauges your ability to take risk. The proceeds of the investment will be used to fund your financial goal. If there is a shortfall in your investment proceeds, to what extent are you able to reduce or eliminate the expense that will be incurred in pursuing that financial goal?
points	
1	*Expense cannot be reduced at all.* *(E.g. the proceeds will be used to fund my basic subsistence needs during retirement.)*
3	*Expense can be reduced by one-third.*
7	*Expense can be reduced by two-third.*
9	*Expense can be totally eliminated.* *(E.g. the proceeds will be used to fund a holiday which I am willing to give up.)*

Please sum up your score, and see the type of Equity Risk* Category your score comes under.

Possible range of scores: 5 to 45. In general, the higher your score, the more comfortable you may be with taking greater risk in your investments to achieve greater returns over the long-term.

* Equity Risk is related to exposure to the “riskier” types of investments in the unit trust. The greater the proportion of assets invested in stocks, the higher is the Equity Risk, and vice versa.



Beside risk tolerance, you will need to consider how long your investment horizon is (i.e. the amount of time between when you invest and when you need to spend the proceeds of your investments) to determine the suitable equity risk category. In general, the longer your investment horizon, the higher the risk you are able to take since you can ride out the volatility in the market. Hence, a higher proportion of your investment will be in stocks.

Important note:
This questionnaire is designed to provide basic information to diverse CPF members with different financial circumstances, so it may not take into account your individual financial situation.

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