



Coping with Financial Uncertainty

talking about money

Risk Tolerance*

This will help you assess your tolerance for taking risks in money-related matters

- In general, how would your best friend describe you as a risk taker?
 - a real gambler
 - will take risks with adequate research
 - cautious
 - a real risk avoider
- You are on a TV game show and choose one of the following. Which one would you take?
 - \$1,000 cash
 - a 50% chance at winning \$5,000
 - a 25% chance at winning \$10,000
 - a 50% chance at winning \$100,000
- You have just finished saving for a "once-in-a-lifetime" vacation. Three weeks before you plan to leave, you lose your job. You would:
 - cancel the vacation
 - take a much more modest vacation
 - go as scheduled, because you need time to prepare for a job search
 - extend your vacation, because this might be the last chance to go first-class.
- If you unexpectedly receive \$20,000 to *invest*, what would you do?
 - deposit it in a bank account, money market or insured CD
 - invest it in safe high quality bonds or bond mutual funds
 - invest in stocks or stock mutual funds
- In terms of experience, how comfortable are you investing in stocks or stock mutual funds?
 - not at all comfortable
 - somewhat comfortable
 - very comfortable
- When you think of the work "risk" which of the following words comes to mind first?
 - loss
 - uncertainty
 - opportunity
 - thrill
- Some experts are predicting prices of assets such as gold, jewels, collectibles and real estate (hard assets) to increase in value; bond prices may fall however, experts tend to agree that government bonds are relatively safe. Most of your investment assets are now in high-interest government bonds. What would you do?
 - hold the bonds
 - sell the bonds, put half the proceeds into money market accounts and the other half in hard assets
 - sell the bonds and put the total proceeds into hard assets
 - sell the bonds, put all the money into hard assets and borrow additional money to buy more

*Risk Tolerance Quiz Source: Gable, J.E. , & Lytton, R.H. (1999) Financial Risk Tolerance Revisited: the development of a risk assessment instrument. *Financial Service Review*, 8, 163-181. All rights reserved. ©2007 AFCPE

8. Given the best- and worst-case returns of the four investment choices below, which would you prefer?
- a. \$200 gain best case; \$0 worst case
 - b. \$800 gain best case; \$200 loss worst case
 - c. \$2,600 gain best case; \$800 loss worst case
 - d. \$4,800 gain best case; \$2,400 loss worst case
9. In addition to whatever you own, you have been given \$1,000. You are now asked to choose between:
- a. a sure gain of \$500
 - b. a 50% chance to gain \$1,000 and a 50% chance to gain nothing
10. In addition to whatever you own, you have been given \$2,000. You are now asked to choose between:
- a. a sure loss of \$500
 - b. a 50% chance to lose \$1,000 and a 50% chance to lose nothing
11. Suppose a relative left you an inheritance of \$100,000, stipulating in the will that you invest ALL the money in ONE of the following choices. Which one would you select?
- a. a savings account or money market mutual fund
 - b. a mutual fund that owns stocks and bonds
 - c. a portfolio of 15 common stocks
 - d. commodities like gold, silver and oil
12. If you had to invest \$20,000, which of the following investment choices would you find most appealing?
- a. 60% in low-risk investments, 30% in medium-risk investments, 10% in high-risk investments
 - b. 30% in low-risk investments, 40% in medium-risk investments, 30% in high-risk investments
 - c. 10% in low-risk investments, 40% in medium-risk investments, 50% in high-risk investments.
13. Your trusted friend and neighbor, an experienced geologist, is putting together a group of investors to fund an exploratory gold mining venture. The venture could pay back 50 to 100 times the investment if successful. If the mine is a bust, the entire investment is worthless. Your friend estimates the chance of success is only 20%. If you had the money, how much would you invest?
- a. nothing
 - b. one month's salary
 - c. three month's salary
 - d. six month's salary

Add up your points using the following scale

a = 1 b = 2 c = 3 d = 4

Score _____

Key Your Risk Tolerance Level

0 – 18 Low tolerance for risk

19 -22 Below average tolerance for risk

23 -28 Average/moderate tolerance for risk

29 -32 Above average tolerance for risk

33 -43 High tolerance for risk