

Worksheet 7-3: Creating Investment Portfolio

You become an investment advisor and you create investment portfolio for your client.

For the two clients below, create an investment portfolio for each client based on the completed Risk Tolerance Questionnaire.

Client 1: Mr. and Mrs. Safe

Mr. and Mrs Safe are in their 60's and both of them are retired. They receive regular pension income. Their house and their car are both paid off. They are debt free with a saving of \$10000, earning little interest sitting in a savings account.

Risk Tolerance Questionnaire

Instruction:

- (i) For each of the following questions, select the answer that best describe your situation.
- (ii) Enter the points corresponding to your response inside the brackets ().
- (iii) Add all the points inside the brackets ().
- (iv) Compare your total points to the categories given below for your "Recommendation".

1. For how many years are you investing?
 - less than 3 years (4 points)
 - 3 – 10 years (8 points)
 - more than 10 years (12 points)

(4)

2. What is your purpose for investing?
 - savings (3 points)
 - savings/investment (7 points)
 - investment (13 points)

(3)

3. How much risk are you comfortable with?
 - zero to some risk (2 points)
 - moderate risk (7 points)
 - moderate to high risk (12 points)

(7)

4. What is your personal financial situation?
 - not secure, in debt or just meeting expenses (-5 points)
 - secure, some money to invest (1 point)
 - very secure, extra money to invest (3 points)

(3)

5. What knowledge do you have about investments?
 - none to basic knowledge (-3 points)
 - knowledgeable (0 point)
 - expert (3 points)

(-3)

Total Points: 14

Recommendation for Investment Portfolio

- < 20 points: 100% in saving/low-risk investments
- 20 – 30 points: 5% to 20% in savings/low-risk investments
60% to 80% in moderate-risk investments
35% to 0% in higher-risk investments
- 31 – 45 points: 0% to 5% in savings/low-risk investments
40% to 50% in moderate-risk investments
60% to 45% in higher-risk investments

Client 2: Mr. Young

Mr. Young is married with 2 young children. He is a senior manager of a big corporation. He has not paid off his home mortgage. His wife stays home with the kids. He recently inherited \$5000. He would like to invest this money for any future emergency.

Risk Tolerance Questionnaire

Instruction:

- (i) For each of the following questions, select the answer that best describe your situation.
- (ii) Enter the points corresponding to your response inside the brackets ().
- (iii) Add all the points inside the brackets ().
- (iv) Compare your total points to the categories given below for your "Recommendation".

1. For how many years are you investing?
 - ♦ less than 3 years (4 points)
 - ♦ 3 – 10 years (8 points)
 - more than 10 years (12 points) (12)

2. What is your purpose for investing?
 - ♦ savings (3 points)
 - savings/investment (7 points) (7)
 - ♦ investment (13 points)

3. How much risk are you comfortable with?
 - ♦ zero to some risk (2 points)
 - moderate risk (7 points) (7)
 - ♦ moderate to high risk (12 points)

4. What is your personal financial situation?
 - not secure, in debt or just meeting expenses (-5 points)
 - ♦ secure, some money to invest (1 point)
 - ♦ very secure, extra money to invest (3 points) (-5)

5. What knowledge do you have about investments?
 - ♦ none to basic knowledge (-3 points)
 - knowledgeable (0 point) (0)
 - ♦ expert (3 points)

Total Points: 21

Recommendation for Investment Portfolio

- < 20 points: 100% in saving/low-risk investments
- 20 – 30 points: 5% to 20% in savings/low-risk investments
 60% to 80% in moderate-risk investments
 35% to 0% in higher-risk investments
- 31 – 45 points: 0% to 5% in savings/low-risk investments
 40% to 50% in moderate-risk investments
 60% to 45% in higher-risk investments