A sample questionnaire

The following questionnaire is a primer to help you determine the appropriate investment strategy for you. Answer the questions honestly, and score it yourself.

Part I: Ability to Accept Risk

An investor’s primary concern should be whether or not the risk implied by a strategy exceeds the risk that the investor is able to accept. A number of factors should be considered.

The greater one’s net worth (total assets including home, possessions, investments, less liabilities) the more risk one can reasonably assume in any one portfolio. What would you estimate is your total net worth?

1pt ___ Under a million
2pts___ Over a million but under 5 million
3pts___ Over 5 million

Liquid assets (bank, brokerage, mutual fund, etc., assets) are the part of your total net worth available for investment in stocks, bonds, funds and so forth. The smaller a portfolio is as a percent one’s total liquid asset base, the more risk it can reasonably assume. What portion of your total liquid investment assets would this portfolio be?

1pt ___ A significant portion (greater than 65%)
2pts___ A moderate portion (35% to 65%)
3pts___ A modest portion (less than 35%

Investor age is relevant in that younger Investors with a longer time frame can assume more risk. Other personal factors must be considered as well, however. What is your age?

1pt ___ >74
2pts___ 54-74
3pts___ 34-53
4pts___ <34

Physical wellbeing can affect one’s time horizon, as well as immediate financial needs. How is your health?

3pts___ Excellent
2pts___ Average
1pt ___ Failing

Your objectives and willingness to accept risk may be different if you are investing for others as well as for yourself, for example, a younger spouse, or future generations. What is your marital/ family status? (Check each that applies.)

1pt ___ Unmarried
2pts___ Married
3pts___ Heirs to consider

Investment in assets that carry risk to principal imply a minimum, a 3-5 year time horizon. Given, your age, your health, your objectives for this particular investment account, and your marital/family status, what do you see as your time horizon

1pt ____< 3 years
2pts____3-5 years
3pts____5-10 years
4pts____> 10 years

SCORING PART 1: A perfect score (22) is rare so don’t feel bad if you didn’t come close.

6-10 points suggests an ability to accept only limited risk.
11-16 points suggests an ability to accept moderate risk.
17-22 points suggests an ability to accept considerable risk.

Part II: Willingness to Accept Risk

Ability to accept risk is one thing; willingness to accept it is another. Investment advisors generally follow the "Prudent Man Rule" and diversify client portfolios according to both the investor's ability and willingness to accept risk. The more diversified a portfolio is, the less portfolio risk (volatility). Less risk, however, reduces return. The balance between the two is a matter of personal preference.

The following questions deal with your attitudes toward portfolio risk, and your willingness to accept it.

Portfolio volatility over a market cycle (3-5 years) is

1pt ___ To be avoided at all costs
2pts___ Permissible under certain circumstances
3pts___ Acceptable to achieve expected long-term returns

Portfolio volatility is less important than the end result in this account

3pts___ Agree, results more important
2pts___ Volatility and result should be balanced
1pt ___ Disagree, volatility concerns me

Apart from portfolio risk, there is also asset risk. Some ETF's are more volatile than others. Unlike a hedge fund, a personally managed account is totally transparent. One can see individual holdings move, sometimes considerably in a short period, and not always up. Such volatility is

1pt ___ To be avoided at all costs
2pts___ Permissible under certain circumstances
3pts___ Acceptable to achieve expected overall long-term returns

Diversified accounts carry less portfolio risk, but they also provide less return. Historically, the bond market averages a return of about 4% a year, and the stock market returns about 8% a year. The target return for a 50-50 stock/bond allocation, on average, then is 6%. What is your return expectation?

Part III: Money Management

What size is the account?

5pt ___ Under $100,000
4pts___ Between $100,000 and $500,000
3pts___ Between $500,000 and $1 million
2pts___ Between $1 million and $3 million
1pts___ Over $3 million

How would you characterize your investment experience/ education?

1pt ___ Novice
2pts___ Moderately experienced
3pts___ Experienced or Professional

How much time do you generally spend on your investments?

1pt ___ Very little. Work and other interests usually take precedence.
2pts___ A few hours a week.
3pts___ I monitor my portfolio daily.

How would you characterize your trading style?

0pt ___ I don't trade yet.
1pt ___ I am a buy and hold investor. (adjusting portfolio 1 to 2 times a year.)
2pts ___ I am a swing trader (adjusting portfolio as needed over the intermediate term.)
3pts ___ I am a day trader (adjusting my portfolio on regular basis.)

In a diversified portfolio, certain strategies can result in active trading. How do you feel about the following statement? My investments should be managed for the long run with little turnover.

1pt ___ Agree. Minimize turnover.
2pts___Some turnover is necessary.
1pt___ Disagree. Turnover can be worth it.

Tax-deferred accounts (IRA's, SEP's, Keogh's, etc.) are more profitable over time, and they require far less end-of-year tax expertise. Is yours a taxable or tax-deferred account?

1pt ___ Taxable
2pts___ Tax-deferred (IRA, SEP, etc.)

A stable level of current income is difficult to achieve in an era of historically low interest rates, although investing in dividend-bearing equity assets, bonds, and income producing securities can produce some income. How important is current income to this account?

1pt ___Very important and the amount must be known. If so, annual requirement:____
2pts___Important, but uncertainty regarding the level is okay.
3pts___Not important at all

Frequent contributions and/or withdrawals may complicate management of the portfolio and make performance measurement more complex. Describe anticipated annual contributions and withdrawals

3pts___No added contributions anticipated.
2pts___One or fewer annual contributions anticipated.
1pts___Regular additional contributions anticipated.
3pts___No annual withdrawals anticipated.
2pts___One or fewer annual withdrawals anticipated.
1pt ___ Regular additional withdrawals anticipated.

Investment advisors may provide better and more comprehensive service; have more research backing them up; and a larger pool of talent to make their decisions. Or they may be clumsy, unresponsive, and show poor results. Picking a good advisor can be as much work as picking a good portfolio. Conceptually, how would you feel about professional money management?

3pts___ Uncomfortable—I feel like I'm being sold.
1pt ___ It depends on the cost and on past performance.
0pts___ No problem

If you did hire a professional, how "hands-on" would you want to be? In other words, how nervous are you about managed money? (Check all that apply)

2pts___I'll want to pre-approve all trades.
1pt ___ I'll keep a hand in the portfolio, directing some buys and sells.
1pt___ I'll require notice before the manager buys or sells anything.
-2pts___ I'll review the account periodically to assess performance.

Professional money management comes in many forms. In addition to hedge funds, there are brokered investment accounts, independent portfolio managers, bank investment services, and robot advisors to name a few. Mutual funds and exchange traded funds, active and passive, are also professionally managed. Managers differ widely in the amount they charge for their services, and in the length of time your money may be tied up. How important is it to keep costs low and the funds in this account readily available?

2pts___ Low costs and having the funds available are more important than the promise of outsized gains.
1pts___ Superior performance is worth paying higher fees and tying the money up for an extended period.

Investment strategies set a portfolio target relative to the S&P and attempt to beat it over a specific period. How long do you feel is long enough to determine if your performance objectives are being met?

1pt ___1 year
4pts___3 years
3pts___5 years
2pts___10 years

SCORING PART 3: A perfect score (40) is rare, but a high-end score (21-40 points) is essential if you are going to be happy and successful managing your own money. 8-20 points suggests professional management may be more appropriate to your situation.