Recognizing Your Risk Tolerance

Goal: ______________________________

This worksheet will help you assess how much risk you should take to achieve a specific goal based on the timing of the goal (both when it will be reached and how long it will last) and your psychological and financial ability to withstand market volatility. Enter the number of points for each of the answers and total the scores for each section. Note: If investing for more than one goal, fill out a separate Risk Tolerance Worksheet for each goal.

Timing of Goal

How far out into the future is the goal?

Short-term — Five years or less	1 ___
Intermediate — Five to 10 years	3 ___
Long-term — More than 10 years	6 ___

Over what time period do you anticipate spending money on the goal?

Short-term — Five years or less	1 ___
Intermediate — Five to 10 years	3 ___
Long-term — More than 10 years	6 ___

Relative to your wealth, how large of a withdrawal will your goal require over a period of five years or less?

High — More than 25% of wealth	1 ___
Moderate — 10% to 25% of wealth	3 ___
Low — Less than 10% of wealth	6 ___

Timing Score (total of scores above) 0

Based on your score, your timing risk is:

Short-term	3–5
Intermediate	6–11
Long-term	12–18

Financial and Psychological Risk

During drops in the stock market, have you:

Significantly reduced your exposure to stocks and stock funds	1 ___
Somewhat reduced your exposure to stocks and stock funds	3 ___
Maintained your allocation or bought more stocks	6 ___

How much of your spending needs are covered by non-portfolio income?

None	1 ___
Some	3 ___
All	6 ___

How would you describe your knowledge of key investing concepts?

Basic/Low	1 ___
Moderate	3 ___
High	6 ___

Financial/Psychological Tolerance Score (total of scores above) 0

Based on your score, your financial and psychological tolerance is:

Low	3–5
Moderate	6–11
High	12–18

In the grid below, mark the box corresponding to both your timing risk score and your financial and psychological tolerance score. Then find the same box in the shaded grid to identify your risk tolerance.

Timing Risk

Financial / Psychological Tolerance		Short-Term 3–5	Intermediate 6–11	Long-Term 12–18
	Low 3–5			
	Moderate 6–11			
	High 12–18			

(Put an "X" in the box that best describes you)

Timing Risk

Financial / Psychological Tolerance		Short-Term 3–5	Intermediate 6–11	Long-Term 12–18
	Low 3–5	Very Conservative	Cons. to Mod.	Mod. to Aggr.
	Moderate 6–11	Conservative	Moderate	Aggressive
	High 12–18	Cons. to Moderate	Mod. to Aggr.	Aggressive

Risk Tolerance Definitions

Very Conservative: No ability to withstand market swings; will need to withdraw a significant amount of money from portfolio/savings in less than five years; spending on goal not covered by other sources of income; little to no understanding of key investing concepts

Conservative: Limited ability to withstand market drops of up to 15% without panic; limited sources of income beyond portfolio/savings to spend on goal; will need to withdraw money within five years to 10 years; basic understanding of key investing concepts

Moderate: Ability to withstand market drops of up to 20% to 25% without panic; will/may need to begin withdrawing money from portfolio/savings within 10 years; portfolio withdrawals relative to wealth are moderate; some sources of income outside of portfolio help cover spending on goal; generally understand key investing concepts

Aggressive: No need to take withdrawals in the short-term or shorter-term withdrawals are low relative to wealth; non-portfolio income can cover a significant portion of spending needs; ability to handle market swings without panic; possess understanding of key investing concepts

Note: If investing for more than one goal, fill out a separate Risk Tolerance Worksheet for each goal.
Goals should be listed on the Identifying and Prioritizing Your Financial Goals Worksheet

PRISM WEALTH-BUILDING PROCESS

Recognizing Your Allocation

Goal: ____

Risk Tolerance for Goal: ____

The goal you are attempting to achieve and your corresponding tolerance for risk for that goal should help you identify the appropriate allocation to use.

To help you determine what that allocation is, the AAII Asset Allocation Models are presented below. These models have long served as guidelines that individual investors can use to help construct appropriate portfolios.

You can select one of these models or, alternatively, enter in your preferred allocation manually in the form below.

Aggressive Investor

90% Diversified Stock

Suggested Allocation Breakdowns

20%	Large-Cap Stocks
20%	Mid-Cap Stocks
20%	Small-Cap Stocks
20%	International Stocks
10%	Emerging Markets Stocks
10%	Intermediate Bonds
0%	Short-Term Bonds

Characteristics

Growth:	Substantial
Income:	Very Low
Risk:	Substantial Year-to-Year Volatility of Portfolio Value
8%	Average Annual Growth in Value
-38%	Bad Year

Allocations

10% Fixed Income
90% Diversified Stock

Select ☐

Moderate Investor

60% Diversified Stock

Suggested Allocation Breakdowns

20%	Large-Cap Stocks
15%	Mid-Cap Stocks
10%	Small-Cap Stocks
15%	International Stocks
0%	Emerging Markets Stocks
30%	Intermediate Bonds
10%	Short-Term Bonds

Characteristics

Growth:	Moderate
Income:	Low
Risk:	Moderate Year-to-Year Volatility of Portfolio Value
7%	Average Annual Growth in Value
-21%	Bad Year

Allocations

60% Fixed Income
40% Diversified Stock

Select ☐

Conservative Investor

40% Diversified Stock

Suggested Allocation Breakdowns

20%	Large-Cap Stocks
10%	Mid-Cap Stocks
0%	Small-Cap Stocks
10%	International Stocks
0%	Emerging Markets Stocks
40%	Intermediate Bonds
20%	Short-Term Bonds

Characteristics

Growth:	Low
Income:	Moderate
Risk:	Low Year-to-Year Volatility of Portfolio Value
6%	Average Annual Growth in Value
-12%	Bad Year

Allocations

40% Fixed Income
60% Diversified Stock

Select ☐

Your Customized Portfolio Allocation

Equities	Portfolio Allocation
Large-Cap Stocks	
Mid-Cap Stocks	
Small-Cap Stocks	
International Stocks	
Balanced/Target-Date Fund Portion	
Other:	
Total Equity Allocation	0 %

Fixed-Income Allocation	
Short-Term	
Intermediate-Term	
Long-Term	
Balanced/Target-Date Fund Portion	
Other:	
Total Fixed-Income Allocation	0 %

Other Assets	
Total Other Assets	0 %

Cash Equivalents	
Total Cash Equivalents	%