

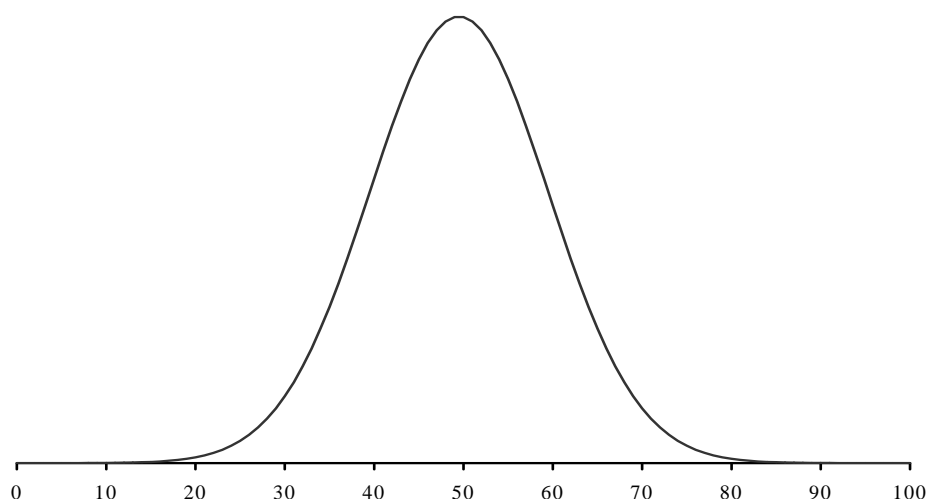
# Risk Groups

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## Overview

The FinaMetrica risk profiling system measure risk tolerance on a scale of 0 to 100. Scores are Normally distributed with a Mean of 50 and a Standard Deviation of 10.



To make the scores and reports more meaningful, the scale has been divided into seven segments. The middle segment is the Mean  $\pm$  half a Standard Deviation, i.e. from 45 to 54. Segments either side are then a Standard Deviation higher or lower, with the end segments covering the balance of the high and low 'tails' of the distribution.

Seven segments are needed to provide sufficient differentiation between people at different points on the scale, particularly for those with extremely low or extremely high risk tolerance. Each of the segments is referred to as a Risk Group.

Risk Group	1	2	3	4	5	6	7
Score Range	<25	25 – 34	35 – 44	45 – 54	55 – 64	65 – 74	75+
No in Group	1%	6%	24%	38%	24%	6%	1%

The Risk Group descriptions have been developed by analysing how those whose scores fall into a particular group typically answer the questionnaire. Fifteen of the twenty five questions have been considered in the analysis. These were selected on the basis of their utility in providing a general understanding of the Risk Groups.

The full Risk Group descriptions are used in the system reports. Here, the section on preferred portfolios has been abbreviated for space reasons. The abbreviated descriptions follow, one per page, and a one-page summary of all groups is set out on the final page.

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## Risk Group 1

### **Making Financial Decisions**

*They usually think of "risk" as "danger" and have, at most, little confidence in their ability to make good financial decisions. They usually feel at least somewhat pessimistic about their major financial decisions after they make them.*

*They are prepared to take, at most, a small degree of risk with their financial decisions and are always more concerned about the possible losses than the possible gains.*

### **Financial Disappointments**

*Typically, when things go wrong financially they adapt very uneasily.*

### **Financial Past**

*They have taken no more than a small degree of risk with their past financial decisions and have never borrowed money to make an investment.*

### **Investment**

*Most feel that it is much more important that the money value of their investments does not fall than that it retains its purchasing power.*

*Over ten years, most expect an investment portfolio to earn, on average, not more than about one and a half times the rate from term deposits. Any fall in the total value of their investments would make them feel uncomfortable.*

*Given the seven portfolios, their most common choices are 0/0/100 and 0/30/70 mixes of high, medium and low risk/return investments.*

### **Borrowing**

*If they were borrowing a large sum of money at a time when it was not clear which way interest rates were going to move and when the fixed interest rate was 1% more than the then variable rate, they would choose to have not less than 75% of the loan at fixed interest.*

### **Government Benefits and Tax Advantages**

*If there was any chance they could finish up worse off than if they'd done nothing, they would not take a risk in arranging their affairs to qualify for a government benefit or obtain a tax advantage.*

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## Risk Group 2

### **Making Financial Decisions**

*They usually think of "risk" as "danger" or "uncertainty" and have, at most, little confidence in their ability to make good financial decisions. They usually feel at least somewhat pessimistic about their major financial decisions after they make them.*

*They are prepared to take, at most, a small degree of risk with their financial decisions and are usually, if not always, more concerned about the possible losses than the possible gains.*

### **Financial Disappointments**

*Typically, when things go wrong financially they adapt somewhat or very uneasily.*

### **Financial Past**

*They have taken no more than a small degree of risk with their past financial decisions and have never borrowed money to make an investment.*

### **Investment**

*Most feel that it is at least somewhat more important that the money value of their investments does not fall than that it retains its purchasing power.*

*Over ten years, most expect an investment portfolio to earn, on average, not more than about one and a half times the rate from term deposits. Any fall in the total value of their investments would make them feel uncomfortable.*

*Given the seven portfolios, their most common choice is a 0/30/70 mix of high, medium and low risk/return investments.*

### **Borrowing**

*If they were borrowing a large sum of money at a time when it was not clear which way interest rates were going to move and when the fixed interest rate was 1% more than the then variable rate, they would choose to have not less than 75% of the loan at fixed interest.*

### **Government Benefits and Tax Advantages**

*If there was any chance they could finish up worse off than if they'd done nothing, they would not take a risk in arranging their affairs to qualify for a government benefit or obtain a tax advantage.*

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## Risk Group 3

### **Making Financial Decisions**

*They usually think of "risk" as "uncertainty". They have a reasonable amount of confidence in their ability to make good financial decisions and usually feel somewhat optimistic about their major financial decisions after they make them.*

*They are prepared to take a small to medium degree of risk with their financial decisions and are usually more concerned about the possible losses than the possible gains.*

### **Financial Disappointments**

*Typically, when things go wrong financially they adapt somewhat or very uneasily.*

### **Financial Past**

*They have taken a small to medium degree of risk with their past financial decisions. Two-thirds of this group have never borrowed money to make an investment.*

### **Investment**

*With regard to the money value of their investments, they feel that retaining its purchasing power is of comparable importance to its not falling.*

*Over ten years, most expect an investment portfolio to earn, on average, from one and a half to twice the rate from term deposits. Typically, they would begin to feel uncomfortable if the total value of their investments went down by 10%.*

*Given the seven portfolios, their most common choice is a 10/50/40 mix of high, medium and low risk/return investments.*

### **Borrowing**

*If they were borrowing a large sum of money at a time when it was not clear which way interest rates were going to move and when the fixed interest rate was 1% more than the then variable rate, most would choose to have a 50/50 mix of fixed and variable interest.*

### **Government Benefits and Tax Advantages**

*So long as there was only a small chance they could finish up worse off than if they'd done nothing, they would take a risk in arranging their affairs to qualify for a government benefit or obtain a tax advantage.*

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## Risk Group 4

### **Making Financial Decisions**

*They usually think of "risk" as "uncertainty". They have a reasonable amount of confidence in their ability to make good financial decisions and usually feel at least somewhat optimistic about their major financial decisions after they make them.*

*They are prepared to take a medium degree of risk with their financial decisions and are usually, if not always, more concerned about the possible gains than the possible losses.*

### **Financial Disappointments**

*Typically, when things go wrong financially they adapt at least somewhat easily.*

### **Financial Past**

*They have taken a small to medium degree of risk with their past financial decisions. Most have never borrowed money to make an investment. The great majority have never invested a large sum in a risky investment mainly for the "thrill" of seeing whether it went up or down in value.*

### **Investment**

*Most commonly they feel it is somewhat more important that the money value of their investments retains its purchasing power than that it does not fall.*

*Over ten years, most expect an investment portfolio to earn, on average, from one and a half to twice the rate from term deposits. Typically, they would begin to feel uncomfortable if the total value of their investments went down by 20%.*

*Given the seven portfolios, their most common choice is a 30/40/30 mix of high, medium and low risk/return investments.*

### **Borrowing**

*If they were borrowing a large sum of money at a time when it was not clear which way interest rates were going to move and when the fixed interest rate was 1% more than the then variable rate, they would choose to have 50% to 75% of the loan at variable interest.*

### **Government Benefits and Tax Advantages**

*So long as there was only a small chance they could finish up worse off than if they'd done nothing, they would take a risk in arranging their affairs to qualify for a government benefit or obtain a tax advantage.*

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## Risk Group 5

### **Making Financial Decisions**

*Most think of "risk" as "opportunity" and have a reasonable amount, if not a great deal, of confidence in their ability to make good financial decisions. They usually feel at least somewhat optimistic about their major financial decisions after they make them. They are prepared to take a medium degree of risk with their financial decisions and are usually, if not always, more concerned about the possible gains than the possible losses.*

### **Financial Disappointments**

*Typically, when things go wrong financially they adapt at least somewhat easily.*

### **Financial Past**

*They have taken a medium degree of risk with their past financial decisions. About half have borrowed money to make an investment. Most have never invested a large sum in a risky investment mainly for the "thrill" of seeing whether it went up or down in value.*

### **Investment**

*Most feel that it is at least somewhat more important that the money value of their investments retains its purchasing power than that it does not fall.*

*Over ten years, most expect an investment portfolio to earn, on average, from two to two and a half times the rate from term deposits. Typically, they would begin to feel uncomfortable if the total value of their investments went down by 20%.*

*Given the seven portfolios, their most common choice is a 50/40/10 mix of high, medium and low risk/return investments.*

### **Borrowing**

*If they were borrowing a large sum of money at a time when it was not clear which way interest rates were going to move and when the fixed interest rate was 1% more than the then variable rate, they would choose to have at least 50% of the loan at variable interest.*

### **Government Benefits and Tax Advantages**

*So long as there was only a small chance they could finish up worse off than if they'd done nothing, they would take a risk in arranging their affairs to qualify for a government benefit or obtain a tax advantage.*

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## Risk Group 6

### **Making Financial Decisions**

Most commonly they think of "risk" as "opportunity". They have a great deal of confidence, if not complete confidence, in their ability to make good financial decisions and usually feel very, or at least somewhat, optimistic about their major financial decisions after they make them.

They are prepared to take a large degree of risk with their financial decisions and are usually, if not always, more concerned about the possible gains than the possible losses.

### **Financial Disappointments**

Typically, when things go wrong financially they adapt somewhat, if not very, easily.

### **Financial Past**

Most have taken a large degree of risk with their past financial decisions. Most have also borrowed money to make an investment. About half have invested a large sum in a risky investment mainly for the "thrill" of seeing whether it went up or down in value.

### **Investment**

They feel it is much more important that the money value of their investments retains its purchasing power than that it does not fall.

Over ten years, they expect an investment portfolio to earn, on average, at least three times the rate from term deposits. Typically, they would begin to feel uncomfortable if the total value of their investments went down by 33%.

Given the seven portfolios, their most common choice is a 70/30/0 mix of high, medium and low risk/return investments.

### **Borrowing**

If they were borrowing a large sum of money at a time when it was not clear which way interest rates were going to move and when the fixed interest rate was 1% more than the then variable rate, they would choose to have at least 50% of the loan at variable interest.

### **Government Benefits and Tax Advantages**

So long as there was more than a 50% chance they would finish up better off than if they'd done nothing, they would take a risk in arranging their affairs to qualify for a government benefit or obtain a tax advantage.

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## Risk Group 7

### **Making Financial Decisions**

*Most commonly they think of "risk" as "opportunity" or "thrill". They have complete confidence, or at least a great deal of confidence, in their ability to make good financial decisions and usually feel very optimistic about their major financial decisions after they make them.*

*Most are prepared to take a very large degree of risk with their financial decisions and are always more concerned about the possible gains than the possible losses.*

### **Financial Disappointments**

*Typically, when things go wrong financially they adapt very easily.*

### **Financial Past**

*They have taken a large to very large degree of risk with their past financial decisions. The great majority of this group have borrowed money to make an investment. Three in five have invested a large sum in a risky investment mainly for the "thrill" of seeing whether it went up or down in value, some have done so very frequently.*

### **Investment**

*Most feel that it is much more important that the money value of their investments retains its purchasing power than that it does not fall.*

*Over ten years, most expect an investment portfolio to earn, on average, more than three times the rate from term deposits. Typically, they would begin to feel uncomfortable if the total value of their investments went down by 50%.*

*Given the seven portfolios, their most common choice is a 100/0/0 mix of high, medium and low risk/return investments.*

### **Borrowing**

*If they were borrowing a large sum of money at a time when it was not clear which way interest rates were going to move and when the fixed interest rate was 1% more than the then variable rate, they would choose to have at least 75% of the loan at variable interest.*

### **Government Benefits and Tax Advantages**

*So long as there was more than a 50% chance they would finish up better off than if they'd done nothing, they would take a risk in arranging their affairs to qualify for a government benefit or obtain a tax advantage.*

## Summary Table

### Making Financial Decisions

	1	2	3	4	5	6	7
<b>Q3. Think of "Risk" as?</b>	Danger	Danger or uncertainty	Uncertainty	Uncertainty	Opportunity	Opportunity	Opportunity or thrill
<b>Q12. Confidence in?</b>	Little, at most	Little, at most	Reasonable	Reasonable	Reasonable to a great deal	A great deal, if not complete	Complete, or at least a great deal
<b>Q7. Feel about afterwards?</b>	At least somewhat pessimistic	At least somewhat pessimistic	Somewhat optimistic	At least somewhat optimistic	At least somewhat optimistic	Very, or at least somewhat, optimistic	Very optimistic
<b>Q10. Degree of risk?</b>	Small, at most	Small, at most	Small to medium	Medium	Medium	Large	Very large
<b>Q6. Concerned about losses or gains?</b>	Always losses	Usually, if not always, losses	Usually losses	Usually, if not always, gains	Usually, if not always, gains	Usually, if not always, gains	Always gains

### Financial Disappointments

	1	2	3	4	5	6	7
<b>Q2. Adapt?</b>	Very uneasily	Somewhat or very uneasily	Somewhat or very uneasily	At least somewhat easily	At least somewhat easily	Somewhat, if not very, easily	Very easily

### Financial Past

	1	2	3	4	5	6	7
<b>Q9. Degree of risk?</b>	Not more than small	Not more than small	Small to medium	Small to medium	Medium	Large	Large to very large
<b>Q11. Borrowed to invest?</b>	"No"	"No"	Two thirds "No"	Most "No"	About half "Yes"	Great majority "Yes"	Great majority "Yes"
<b>Q4. Thrill invest?</b>	n.a.	n.a.	n.a.	Very few	Few	Almost half	Three of five

### Investment

	1	2	3	4	5	6	7
<b>Q18. Money value not fall or retain purchasing power?</b>	Much more money value not fall	Somewhat more money value not fall	Both of comparable importance	Somewhat more retain purchasing power	At least somewhat more retain purchasing power	Much more retain purchasing power	Much more retain purchasing power
<b>Q21. 10yr returns?</b>	1-1.5xTDs	1-1.5xTDs	1.5-2xTDs	1.5-2xTDs	2-2.5xTDs	At least 3xTDs	More than 3xTDs
<b>Q14. Discomfort?</b>	Any fall	Any fall	10% fall	20% fall	20% fall	33% fall	50% fall
<b>Q16. Portfolio Mix? High/Med/Low</b>	0/0/100 or 0/30/70	0/30/70	10/40/50	30/40/30	50/40/10	70/30/0	100/0/0

### Borrowing

	1	2	3	4	5	6	7
<b>Q23. Loan Mix?</b>	At least 75% fixed	At least 75% fixed	50/50	50-75% variable	At least 50% variable	At least 50% variable	At least 75% variable

### Government Benefits and Tax Advantages

	1	2	3	4	5	6	7
<b>Q22. Take risk to obtain?</b>	Not if any chance of worse off	Not if any chance of worse off	Yes, if only a small chance of worse off	Yes, if only a small chance of worse off	Yes, if only a small chance of worse off	Yes, if 50+% chance of better off	Yes, if 50+% chance of better off

As would be expected, the overall change from one group to the next is gradual - adjacent groups having much in common. However, as the gap between groups widens the differences become more significant. By the time the gap is two groups wide, (virtually) all the elements of the description have changed.