SELBY & ASSOCIATES FINANCIAL SERVICES PTY LTD

Risk Profile Assessment

Many financial decisions are made in situations of uncertainty, especially regarding future performance, and so involve degree of risk.

In financial markets, risk is the variation that occurs between your actual and expected performance. Some risks may mean that your performance is lower than expected, or in severe circumstances the value of your investment becomes less than that originally invested.

Different people are willing to accept different levels of investment risks. One investor will accept high levels of risk in order to achieve higher returns, another will be unable to accept even a moderate level of risk. The relationship between risk and return is discussed later in this document. As a potential investor it is most important you understand this concept.

Identifying and understanding you own risk profile is the first step in developing financial strategies. The purpose of the following questionnaire is to determine your risk profile based on your individual preferences and experiences. Once agreed upon, this risk profile will then be used in combination with your needs and goals to develop a financial strategy appropriate to your situation.

Risk Profile Questionnaire

1. **Which of the following best describes your investment experience?**
    a) None
    b) Mainly bank accounts
    c) Bank account and some shares and/or property
    d) A mix of bank accounts, shares, share funds and/or property
    e) Australian and International shares or share funds, property and derivatives

    Client 1 Client 2

2. **How long before your expect to require access to a part or all of your investments?**
    a) Less than one year
    b) Between 1-3 years
    c) Between 3-5 years
    d) Between 5-7 years
    e) More than 7 years

    Client 1 Client 2

3. **What type of returns do you want from your investment?**
    a) Income from interest
    b) Income from interest and from shares
    c) Income from interest and from shares and some capital growth
    d) Income from shares and capital growth
    e) Mostly capital growth

Client 1 Client 2

4. **Please note the following investment considerations**

	Not important		Very important	
a) To avoid any short term losses	A	B	C	D
b) Receive regular income from investments	A	B	C	D
c) Long-term growth in the value of investments	A	B	C	D
d) Protect against inflation	A	B	C	D

Client 1 Client 2

5. **What % of your investment would you be prepared to have in higher risk investments? (ie which in the shorter term may increase and decrease significantly but are expected to provide higher returns over the longer term).**
    a) 0%
    b) 25%
    c) 50%
    d) 75%
    e) 100%

Client 1 Client 2

6. **How often would you be prepared to accept a negative return for potentially higher long term returns?**
    a) Yes. One negative year in every 10 years
    b) Yes. One negative year in every 8 years
    c) Yes. One negative year in every 5 years
    d) I am not prepared to accept any negative returns
    e) Yes. One negative year in every 3 years

Client 1 Client 2

7. **Assume your long-term investments dropped in value by say 10% or more in one year, how would you react?**
    a) You cannot accept any decline in the value of these investments
    b) You consider selling and reinvesting elsewhere
    c) You adopt a 'wait and see' approach
    d) You expect that your investments will recover in value at some time in the next 1 to 2 years
    e) You would consider purchasing more

    Client 1 Client 2

8. **Assume that you inherit a good quality Australian share portfolio valued at $100,000. You do not need the money for other purposes and consider it only for investment. What would you do with the portfolio?**
    a) Sell the entire portfolio immediately to avoid any loss in value?
    b) Sell 75% and place the money in more conservative investments?
    c) Sell 50% and place the money in more conservative investments?
    d) Sell 25% and place the money in more conservative investments?
    e) Keep the entire share portfolio for future growth opportunities

    Client 1 Client 2

Scoring

Q1.	A	B	C	D	E	**Q.5**	A	B	C	D	E
	6	4	3	2	1		7	6	5	4	2
Q.2	A	B	C	D	E	**Q6.**	A	B	C	D	E
	6	5	4	3	2		6	5	4	3	2
Q3.	A	B	C	D	E	**Q.7**	A	B	C	D	E
	6	5	4	3	2		4	3	6	2	5
Q4. a)	A	B	C	D		**Q.8**	A	B	C	D	E
	1	2	3	4			6	4	3	2	1
b)	A	B	C	D							
	2	3	4	5							
c)	A	B	C	D							
	5	4	3	2							
d)	A	B	C	D							
	5	4	3	2							

Scoring Table

Score	**Risk Profile**
17 to 22	Very High
23 to 28	High
29 to 33	Medium to High
34 to 40	Medium
41 to 49	Low to Medium
50 to 59	Low
60 to 64	Cash Only

Your Risk profile: As Determined

Client 1:	Client 2:
Score:	Score:
Determined:	Determined:
Profile:	Profile:

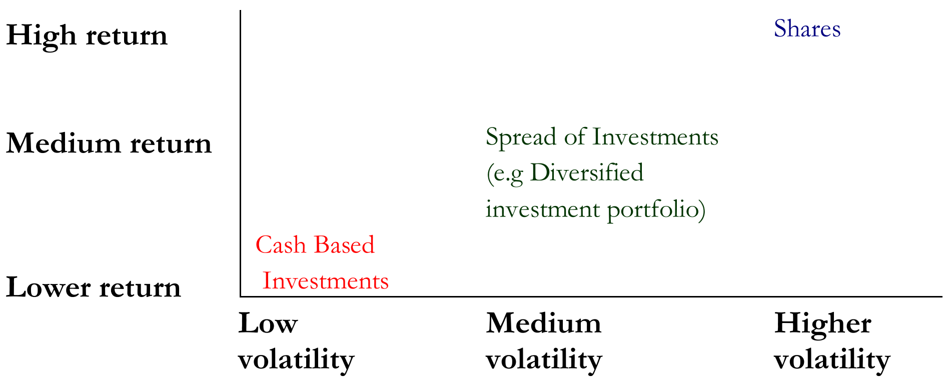
The answers to the questions may not have provided a risk profile you are comfortable with. Should this be the case you should inform your advisor, who will discuss alternatives and suggest a profile you feel more appropriate.

The Concept of Risk (Volatility) and Return

People invest in growth assets, such as shares and property trusts to increase their funds over the longer term. Growth assets can rise and fall in value in the short term (called Volatility). Non growth assets (cash and fixed interest) have low volatility but provide low returns over the longer term.

The higher the level of growth assets in your investment the higher the level of volatility your investment may experience.

The following chart displays the relationship between risk and return.



Advisor Notes

Your Risk Profile: As Agreed

Client 1: Client 2:

Points for you to Consider

1. Your risk profile will form an important part of any investment strategy developed for you by Selby and Associates Financial Services Pty Ltd.

2. Your risk profile may change over time depending on your personal circumstances and should be reviewed when making future investment decisions.

Declaration

I feel comfortable with the risk profile above and agree to it being used in the development of financial strategies for me.

Name:	**Name:**
Signature:	**Signature:**
Date:	**Date:**

RISK PROFILE

RISK PROFILE	ASSET ALLOCATION						
	Growth	**Non Growth**	**Cash**	**Fixed Interest**	**Property**	**Aust Equities**	**Int Equities**
Cash only	**0**	**100**	100	0	0	0	0
Low You seek stable returns with income but low potential for capital loss. You are prepared to take little risk and are likely to withdraw your investment in the event of loss in value. You are likely to invest 80% in income producing assets, such as fixed interest and cash and 20% in growth assets, such as shares and property. The recommended minimum investment time frame is 2-3 years.	**20**	**80**	50	30	10	10	0
Medium Low You seek to preserve and potentially increase the value of your capital over the medium to long-term with relatively stable returns over the medium term. You are prepared to take a small amount of risk but are likely to withdraw your investment in the event of loss in value. You are likely to invest 65% in income producing assets, such as fixed interest and cash and 35% in growth assets, such as shares and property. The recommended minimum investment time frame is 2 – 3 years.	**35**	**65**	25	40	8	17	10
Medium You seek a balance of income and capital growth over the medium-to-long term. You are prepared to take short-term risk to potentially gain longer term capital growth. You are likely to monitor an investment closely in the event of loss in value. You are likely to invest 50% in income producing assets, such as fixed interest and 50% in growth assets, such as shares and property. The recommended minimum investment time frame is 4-5 years.	**50**	**50**	10	40	10	25	15
Medium High You seek returns mostly from capital growth over the long-term. You are prepared to take medium to long-term risk to potentially gain higher capital growth and in the event of loss in value, you are likely to leave the investment in place. You are likely to invest 20% in relatively secure and stable assets and 80% in growth assets, such as shares. The recommended minimum investment time frame is 4-5 years.	**65**	**35**	5	30	10	33	22
High You seek returns mostly from capital growth over the long-term. You are prepared to take medium to long-term risk to potentially gain higher capital growth and in the event of loss in value, you are likely to leave the investment in place. You are likely to invest 20% in relatively secure and stable assets and 80% in growth assets, such as shares. The recommended minimum investment time frame is 4-5 years.	**80**	**20**	5	15	10	40	30
Very High You seek capital growth over the long term. You are prepared to take long-term risk and higher volatility to potentially gain higher capital growth and in the event of loss in value, you expect to leave the investment in place. You are likely to invest 100% in growth assets, such as Australian and global shares. The recommended minimum investment time frame is 7+ years.	**100**	**0**	2	0	0	55	43

Risk Return Trade Off

Investing involves risk. Risk is the chance that an investment will not give you the returns you hoped for or that you will lose money. Almost all investments have risk, but some have more than others.

Generally, investments that are expected to pay high returns involve more risk. While these investments are likely to produce higher returns over time than more conservative investments, over short periods they can fall in value and lose money.

The relationship between *long term risk* and *return* in different asset classes is illustrated in the following graph:

In general most people are conversant with the concept of investment return, and understand, for example, that a 10% per annum return on $100,000 would result in $10,000 being received each year. However, many people do not clearly understand *volatility*, a concept that will be explained in the following section.

Volatility

Volatility is a term that refers to the unpredictable upward and downward shifts of investment values over a period of time.

The amount of volatility experienced in a portfolio of investments is determined by the level of investments in growth assets, such as shares and property. Growth assets will at various times provide upward and downward movements in values (volatility) over the short term, but in the longer term provide overall growth in the value of your investments.

Hence the greater the level of growth investments in your portfolio, the larger the swings in value may be over the short term and the greater the expected growth in your portfolio over the longer term.

Consequently, the combination of growth and income assets (non growth investments such as cash and fixed interest) in your investments determine the amount of volatility and growth likely to be experienced by your investments (refer to the risk return trade of above) as well as the returns expected to be achieved over the longer term.

Economic Cycles

When considering investing it is important to understand that the value of your investments may be strongly impacted by economic (business) cycles. Investment returns are closely linked to and affected by economic situations, both locally and internationally. Hence, it is natural to see investment returns rise and fall as economic situations change. Consequently, as an investor, it is important you understand that the returns as well as the value of your investments are expected to rise and fall over time.

The reason for investing is to achieve growth in the value of your investments over the longer term, while appreciating that there will be short term fluctuations (volatility).

Economic cycles, (periods of expansion stagnation or contraction), are causes by a number of different factors and their durations can vary considerably depending on a large number of social, economic and political factors. Economic cycles are comprised of four stages, expansion, prosperity, contraction and recession. Such periodic fluctuations in economic activity do not follow a predictable pattern, since the length and strength of each phase can vary significantly. Since the Great Depression of the 1930's many Governments have attempted to diminish the extremes of economic cycles through the appropriate use of monetary and fiscal policy. That is to stimulate the economy at the bottom of the cycle and to slow the economy at the top of the cycle, so intending to remove the extremes.