

Determine Your Risk Tolerance

A critical factor in determining how much investment risk you should take is your personal risk tolerance. Some people are just more comfortable taking risks than others and prefer a more conservative approach to investing across the life cycle. Complete the quiz below to get an idea of your level of risk tolerance.

- 1. In general, how would your best friend describe you as a risk taker?**
 - a. A real gambler
 - b. Willing to take risks after completing adequate research
 - c. Cautious
 - d. A real risk avoider
- 2. You are on a TV game show and can choose one of the following. Which would you take?**
 - a. \$1,000 in cash
 - b. A 50% chance at winning \$5,000
 - c. A 25% chance at winning \$10,000
 - d. A 5% chance at winning \$100,000
- 3. You have just finished saving for a “once-in-a-life-time” vacation. Three weeks before you plan to leave, you lose your job. You would:**
 - a. Cancel the vacation
 - b. Take a much more modest vacation
 - c. Go as scheduled, reasoning that you need the time to prepare for a job search
 - d. Extend your vacation, because this might be your last chance to go first-class
- 4. If you unexpectedly received \$20,000 to invest, what would you do?**
 - a. Deposit it in a bank account, money market account, or an insured CD
 - b. Invest it in safe, high-quality bonds or bond mutual funds
 - c. Invest it in stocks or stock mutual funds
- 5. In terms of experience, how comfortable are you investing in stocks or stock mutual funds?**
 - a. Not at all comfortable
 - b. Somewhat comfortable
 - c. Very comfortable
- 6. When you think of the word “risk” which of the following words comes to mind first?**
 - a. Loss
 - b. Uncertainty
 - c. Opportunity
 - d. Thrill

7. **Some experts are predicting prices of assets such as gold, jewels, collectibles, and real estate (hard assets) to increase in value; bond prices may fall; however, experts tend to agree that government bonds are relatively safe. Most of your investment assets are now in high-interest government bonds. What would you do?**
- Hold the bonds
 - Sell the bonds, put half the proceeds into money market accounts and the other half into hard assets
 - Sell the bonds and put the total proceeds into hard assets
 - Sell the bonds, put all the money into hard assets and borrow additional money to buy more
8. **Given the best and worst case returns of the four investment choices below, which would you prefer?**
- \$200 gain best case; \$0 gain/loss worst case
 - \$800 gain best case; \$200 loss worst case
 - \$2,600 gain best case; \$800 loss worst case
 - \$4,800 gain best case; \$2,400 loss worst case
9. **In addition to whatever you own, you have been given \$1,000. You are now asked to choose between:**
- A sure gain of \$500
 - A 50% chance to gain \$1,000 and a 50% chance to gain nothing
10. **In addition to whatever you own, you have been given \$2,000. You are now asked to choose between:**
- A sure loss of \$500
 - A 50% chance to lose \$1,000 and a 50% chance to lose nothing
11. **Suppose a relative left you an inheritance of \$100,000, stipulating in the will that you invest ALL the money in ONE of the following choices. Which one would you select?**
- A savings account or money market mutual fund
 - A mutual fund that owns stocks and bonds
 - A portfolio of 15 common stocks
 - Commodities like gold, silver, and oil
12. **If you had to invest \$20,000, which of the following investment choices would you find most appealing?**
- 60%-low-risk investments; 30%-medium-risk investments; 10%-high-risk investments
 - 30%-low-risk investments; 40%- medium-risk investments; 30%-high-risk investments
 - 10%-low-risk investments; 40%-medium-risk investments; 50%-high-risk investments
13. **Your trusted friend and neighbor, and experienced geologist, is putting together a group of investors to fund an exploratory gold mining venture. The venture could pay back 50 to 100 times the investment if successful. If the mine is a bust, the entire investment is worthless. Your friend estimates the chance of success is only 20%. If you had the money, how much would you invest?**
- Nothing
 - One month's salary
 - Three month's salary
 - Six month's salary

Risk Tolerance Quiz

Scoring:

1. a = 4; b = 3; c = 2; d = 1
2. a = 1; b = 2; c = 3; d = 4
3. a = 1; b = 2; c = 3; d = 4
4. a = 1; b = 2; c = 3
5. a = 1; b = 2; c = 3
6. a = 1; b = 2; c = 3; d = 4
7. a = 1; b = 2; c = 3; d = 4
8. a = 1; b = 2; c = 3; d = 4
9. a = 1; b = 3
10. a = 1; b = 3
11. a = 1; b = 2; c = 3; d = 4
12. a = 1; b = 2; c = 3
13. a = 1; b = 2; c = 3; d = 4

Key:

- 0-18 low tolerance for risk
19-22 below-average tolerance for risk
23-28 average/moderate tolerance for risk
29-32 above-average tolerance for risk
33-47 high-tolerance for risk

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Additional Resources: Available online at <http://www.rce.rutgers.edu:8080/money/riskquiz/default.asp>

Reference: John Grable & Ruth Lytton, "Financial risk tolerance revisited: the development of a risk assessment instrument." Financial Services Review 8 (1999), pages 163-181.



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