

## Step 3

*Determine Your Risk Tolerance*

**H**ow much investment risk are you prepared to take? This is important to know before you determine your investment strategy. This quiz will give you an idea of the type of investment strategy that may best match your unique situation. Devote 15 minutes of your time to this quiz. It could make a big difference in the quality of your future.

	<b>Points</b>
1) In how many years do you plan to retire?	
A) 2 to 3 years	5
B) 4 to 6 years	25
C) 7 to 10 years	40
D) 11 to 14 years	45
E) 15+ years	50
2) Do you think you will withdraw or borrow more than one third of your 401(k) Plan account within the next 10 years to buy a home, finance college, cover medical expenses, or for some other important financial need? (Keep in mind that your 401(k) Plan is a long-term investment intended for retirement.)	
A) No	50
B) Yes, in 2 to 3 years	5
C) Yes, in 4 to 6 years	20
D) Yes, in 7 to 10 years	40
3) Do you have an emergency fund worth six months of your salary after taxes? (You should keep a cash reserve for unexpected expenses.)	
A) No	2
B) My emergency fund is worth LESS than six months of my salary after taxes	6
C) Yes	8
4) Do you have a separate savings plan for other major expenses such as college tuition, a down payment on a home, or eldercare? (Starting a separate savings plan for these major expenses is a good idea.)	
A) Yes, I have a separate savings plan for these expenses	8
B) I do not foresee having these expenses	6
C) I plan to withdraw part of my 401(k) account to cover these expenses (My response to question 2 accurately reflects this decision.)	5
D) No, currently I have no separate savings plan	2
5) How much of your total assets are invested outside of your 401(k) Plan? (Consider your emergency fund, bank accounts, retirement accounts, CDs, mutual funds, cash value of life insurance, stocks or bonds, investment real estate and other investments. Do not include your principal residence or vacation home.)	
A) Less than 25%	2
B) Between 25% and 50%	3
C) Between 51% and 75%	7
D) More than 75%	8
6) Assuming an inflation rate of three percent per year, which one of the following describes your expected future salary earnings over the next five years?	
A) I expect my earnings increases will far outpace inflation (due to raises and promotions)	5
B) I expect my earnings increases to stay ahead of inflation	3
C) I expect my earnings increases to keep pace with inflation	2
D) I expect my earnings increases to fall behind inflation	1

- 7) Approximately what portion of your monthly take-home income goes to paying off debt other than a home mortgage?
- A) Less than 10% 8
  - B) Between 10% and 25% 6
  - C) Between 26% and 50% 3
  - D) More than 50% 1
- 8) How many dependents do you have? (Include children you continue to support, elderly parents, etc.)
- A) None 4
  - B) One 3
  - C) Two to three 2
  - D) More than three 1
- 9) Have you ever invested in bonds or bond mutual funds?
- A) No, and I would be uncomfortable with the risk if I did 1
  - B) No, but I would be comfortable with the risk if I did 9
  - C) Yes, but I was uncomfortable with the risk 2
  - D) Yes, and I was comfortable with the risk 10
- 10) Have you ever invested in individual stocks or stock mutual funds?
- A) No, and I would be uncomfortable with the risk if I did 2
  - B) No, but I would be comfortable with the risk if I did 12
  - C) Yes, but I was uncomfortable with the risk 3
  - D) Yes, and I was comfortable with the risk 15
- 11) Which statement do you feel most comfortable with when it comes to investments?
- A) I want to minimize fluctuation (gains and losses in value) as much as possible even though my return may be less as a result 2
  - B) I want to maintain a balanced mix with some fluctuation and growth 5
  - C) I want my money to grow as much as possible regardless of risk or fluctuation 8
- 12) Which of the following statements describes your feelings toward investing?
- A) I prefer low-risk vehicles that protect my original investment 1
  - B) I prefer a mix of low and high-risk investments, with an emphasis on low-risk investments and a small portion in vehicles with high-risk that may yield greater returns 2
  - C) I prefer a balanced mix of low and high-risk investments 4
  - D) I prefer a mix of low and high-risk investments, with an emphasis on high-risk investments that may yield greater returns 6
  - E) I prefer high-risk investments that offer the potential for greater returns 8
- 13) If taking more risk would definitely increase your chances for higher returns, would you be:
- A) Willing to take a lot more risk with all your money 16
  - B) Willing to take a little more risk with all your money 10
  - C) Willing to take a little more risk with some of your money 5
  - D) Unlikely to take more risk 2

### Interpreting your results

Add the corresponding point value for each answer selected. Based on this total, you may want to consider one of the following investment strategies. Keep in mind that the longer you have until you need your savings, the more aggressive you may want to be, since you will probably have time to make up for short-term fluctuations in value.

**27-80 Points** — A conservative investment strategy that combines growth with stability

**81-140 Points** — A balanced investment strategy that seeks moderate growth

**141-198 Points** — An aggressive investment strategy that emphasizes growth