**<u>THE PSYCH 101 INVESTOR EXAMINATION</u> -** ______________________________

**How Risk Averse Are You?**

Investment professionals have endless strategies for making money, but for a lot of people, what's really important is whether they can sleep at night. Here's a quiz that takes a stab at differentiating the speculator from the risk-averse investor. Please circle the appropriate answer. Ignore tax considerations as part of your deliberations. The exam will be scored for you and the results given in your Investment Plan Document.

1. Your investment loses 16% of its value in a market correction a month after you buy it. Assuming that none of the fundamentals have changed, do you:

   a) Sit tight and wait for it to journey back up.
   b) Sell it and rid yourself of further sleepless nights if it continues to decline.
   c) Buy more. If it looked good at the original price, it looks even better now.

2. A month after you purchase it, the value of your investment suddenly skyrockets by 40%. Assuming you can't find any further information, what do you do?

   a) Sell it.
   b) Hold it on the expectation of further gain.
   c) Buy more. It will probably go higher.

3. Which would you have rather done:

   a) Invested in an aggressive growth fund which appreciated very little in six months.
   b) Invested in a money market fund only to see the aggressive growth fund you were thinking about double in value in the past six months.

4. Would you feel better if:

   a) You doubled your money in an equity investment.
   b) Your money-market fund investment saved you from losing half your money in a market slide.

5. Ignoring taxes, what situation would make you feel happiest?

   a) You win $100,000 in a publisher's contest.
   b) You inherit $100,000 from a rich relative.
   c) You earn $100,000 by risking $2,000 in a high risk venture.
   d) Any of the above. You're happy with the $100,000, no matter how it ended up in your wallet.

6. The apartment building where you live is being converted to condominiums. As part of the purchase, you have received an option to purchase your unit which you may either exercise or

sell to a third party. The terms of the conversion allow you to buy your unit for $80,000. The option has an estimated market value of $20,000. The market value of the condo is $120,000. You know that if you buy the condo it might take six months to sell, the monthly carrying cost is $1,200 and you'd have to borrow the down payment for a mortgage. You don't want to live in the building. What do you do?

a) Sell the option for $20,000 and move immediately.
b) Buy the unit and then sell it on the open market. (Ignore real estate commissions.)

7. You inherit your uncle's $500,000 house, free of any mortgage. Although the house is in a fashionable neighborhood and can be expected to appreciate at a rate faster than inflation, it has deteriorated badly. It would net $5,000 monthly if rented as is. It would net $7,500 per month if renovated. The renovations could be financed by a mortgage on the property. You would:

a) Sell the house.
b) Rent it as is.
c) Make the necessary renovations, and then rent it.

8. You work for a small but thriving, privately held electronics company. The company is raising money by selling stock to its employees. Management plans to take the company public, but not for four or more years. If you buy stock, you will not be allowed to sell until shares are traded publicly. In the meantime, the stock will pay no dividends. When the company goes public, the shares could trade for 10 to 20 times what you paid for them. How much of an investment would you make?

a) None at all.
b) One month's salary.
c) Three months' salary.
d) Six months' salary.

9. Your long-time friend and neighbor, an experienced petroleum geologist, is assembling a group of investors (of which he is one) to fund an exploratory oil well which could pay back 50 to 100 times its investment if successful. If the well is dry, the entire investment is worthless. Your friend estimates the chance of success is only 20%. What would you invest?

a) Nothing at all.
b) One month's salary.
c) Three months' salary.
d) Six months' salary.

10. You learn that several commercial building developers are seriously looking at undeveloped land in a certain location. You are offered an option to buy a choice parcel of that land. The cost is about two months' salary and you calculate the gain to be 10 months' salary. Do you:

a) Purchase the option.
b) Let it slide, it's not for you.

11. 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 $ 10,000.
    c) A 20% chance at winning $ 50,000.
    d) A 5% chance at winning $500,000.

12. It's 1989, and inflation is returning. Hard assets such as precious metals, collectibles and real estate are expected to keep pace with inflation. Your assets are now all in long-term bonds. What would you do?

    a) Hold the bonds.
    b) Sell the bonds, put half the proceeds into money funds and the other half into hard assets such as real estate and precious metals.
    c) Sell the bonds and put the total proceeds into hard assets.
    d) Sell the bonds, put all the money into hard assets and borrow additional money to buy more.

13. You've lost $500 at the blackjack table in Atlantic City. How much more are you prepared to lose to win the $500 back?

    a) Nothing; you quit now.
    b) $100.
    c) $250.
    d) $500.
    e) More than $500.

## SCORING

Now it's time to see what kind of investor you are. Total your score, using the point system listed below for each answer you gave.

1. a) 3, b) 1, c) 4
2. a) 1, b) 3, c) 4
3. a) 3, b) 1
4. a) 2, b) 1
5. a) 2, b) 1, c) 4, d) 1
6. a) 1, b) 2
7. a) 1, b) 2, c) 3
8. a) 1, b) 2, c) 4, d) 6
9. a) 1, b) 3, c) 6, d) 9
10. a) 3, b) 1
11. a) 1, b) 3, c) 5, d) 9
12. a) 1, b) 2, c) 3, d) 4
13. a) 1, b) 2, c) 4, d) 6, e) 8

**If you scored:**

**Below 21**: You are a conservative investor who is allergic to risk. Stick with sober, conservative investments until you develop the confidence or desire to take on more risk.

**21-35**: You are an active investor who's willing to take calculated, prudent risks to achieve greater financial gain. Your investment universe is more diverse here.

**36 and over**: You're a venturesome, assertive investor. The choices that are available to you promise dynamic opportunities. Remember, though, the search for more return carries an extra measure of risk.

| Your Score | Explanation | Standard Deviation Score[1] |
|---|---|---|
| 13-20 | You are a **very conservative** investor and should stick almost exclusively to money-market funds and some bonds (corporate or U.S. government). | 5% - 10% |
| 21-35 | You are a **conservative** investor, want current income and a chance for future appreciation. | 11% - 18% |
| 36-50 | You are a **moderately aggressive** investor, can accept a lower level of income now in exchange for the chance of future appreciation. | 19% - 24% |
| 51-61 | You are a **very aggressive** investor and are willing to take high risks in exchange for above average gains. | 25% - 34% |

[1] A measure of volatility or risk of loss, widely used in setting investment policy and assessing risk tolerance of investors. The figure shown is only an estimate drawn from past performance of various investment vehicles for five asset classes for the period 1926-1997. Source: Ibbotson Associates, SBBI, 1997 Yearbook.