I.S.S.U.E.® INC.
Investment Strategies Simply Understood & Executed®

Client Portfolio & Risk Questionnaire

Client: ____ Date: _____________________

Portfolio Investment Preferences:

A critical factor in designing a portfolio solution for your personal situation is to understand your view of the markets and your investment preferences of your portfolio.

For many Clients, pooled investment vehicles like mutual finds offer the most appropriate ownership option. Direct ownership of stocks and bonds may be a better way to accommodate the needs of other Clients. Unless you state a preference, the Advisor will recommend what is felt as the most suitable for you based on the information provided in this questionnaire. In certain cases, the Advisor's recommendation may include a combination of mutual funds and direct ownership of stocks and bonds.

Identify your ownership preferences, if any:

_____ No Preference
_____ Mutual Funds, REITS, ETFs
_____ Individual Securities

Dependent upon experience, knowledge, and feelings, every Client has investment strategy preferences on how their portfolios are invested and managed. Every strategy, or combination of strategies, will have varying risks and rewards which will affect the overall performance of a portfolio in both short and long time frames. Identify your strategy preferences below using 1 – 4, with 1 being the most desired and 4 being the least desired:

_____ Staying Fully Invested: I want my portfolio fully invested at all times. I believe that diversification among asset classes, combined with periodic rebalancing, can reduce risk and add value. I feel there is much disagreement among investment professionals about when markets are overvalued or undervalued.

_____ Investing to Track Market Indexes: I believe that in most cases passive indexes are likely, over time, to produce better returns than actively-managed portfolios in comparable asset classes. Therefore, I prefer to invest in portfolios or mutual funds designed to track market indexes.

_____ Active Security Selection: I believe that value can be added to a portfolio based on an ability to evaluate, identify, and select securities that are likely to outperform the market.

_____ Active Market Rotation (Market Timing): I believe that value can be added based on an ability to evaluate market conditions and move into and out of the market, or segments of the market, at the most opportune times in order to maximize returns.

Investment Expertise:

How much experience do you have in investing?

____ None ____ Limited ____Moderate _____Extensive

Client Portfolio & Risk Questionnaire

Compared to others, how do you rate your willingness to take financial risks?

____ Very low risk taker

____ Below-average risk taker

____ Average risk taker

____ Above-average risk taker

____ Very high risk taker

How easily do you adapt when faced with unexpected and undesirable financial events?

____ Very uneasily ____ Somewhat uneasily ____ Somewhat easily ____ Very easily

Which type of portfolio would make you most comfortable?

____ Stability, with limited growth potential as a secondary goal.

____ Blended portfolio of stability with modest growth potential.

____ Moderate growth potential with moderate volatility.

____ Higher growth potential with higher volatility.

____ Highest growth potential with highest volatility.

How much confidence do you have in your ability to make good financial decisions?

____ None

____ A little

____ A reasonable amount

____ A great deal

____ Complete confidence

Client Portfolio & Risk Questionnaire

Risks and Returns:

Risk, and the possibility of capital losses, is inherent in all investments. Also, there are never any guarantees of gain over any timeframes or with any investments. Every investment vehicle has its own set of risks and potential rewards. Although there may be historical market statistics for each investment vehicle which suggest “expected” returns, recent market downturns (2000 – 2002 & 2008) have shown these historical market statistics may not be reliable.

The amount of RISK, usually referred to as **Risk Tolerance**, which should be taken by an investor is actually an amalgamation of 6 separate risk components; Risk *Income,* Risk *Assets*, Risk *Insurance*, Risk *Timeframe*, Risk *Behavior*, and Risk *Management*.

RISK *Income*:
This is the amount of noninvestment *Income* available to an investor to support their current and anticipated needs without accessing the investment portfolio. If an investor is working or retired with a level of noninvestment *Income* which covers a majority of living expenses, a higher level of investment RISK is warranted. Conversely, if investment *Income* is needed for any of the day to day living expenses, lower investment RISK or greater capital preservation is warranted.

RISK *Assets*:
This is the amount of investment assets compared to all other assets. The percentage of RISK *Assets* is the value of your investment assets divided by your total assets. Total assets are equal to the Net Present Value (NPV – a mathematical calculation that discounts all future values to arrive at a current value) of all future incomes plus the value of current assets. The higher the percentage of RISK *Assets* compared to total assets, a higher level of investment RISK is warranted. Using the following assumptions of 20 years and a 2.5% yearly inflation, $1200/Mo Social Security, $1000/Mo pension, $150,000 house value, and $450,000 portfolio, the total current assets will be $226,500 (Social Security) + $188,700 (Pension) + $150,000 (House) + $450,000 (Portfolio) = $ 1,015,200. The percent of RISK *Assets* is $450,000/$1,015,200 = 44.3%. Simply stated, how much of investment assets can be lost without affecting long-term financial security.

RISK *Insurance*:
This is simply a determination of how vulnerable you are to a catastrophic financial event due to inadequate insurance coverage. As your RISK *Insurance* increases, where life, disability, medical, and long-term care policies are in place, the vulnerability to your investment assets is decreased and thus a higher level of investment RISK is warranted.

RISK *Timeframe*:
This is the timeframe your investments will need to last. If you assume all your investments will need to last for 20 to 30 years, the RISK *Timeframe* is very long. Therefore, a higher level of investment RISK is warranted. If the assumption is only 10 to 15 years, the RISK *Timeframe* is moderately long. Thus, a medium level of investment RISK is warranted. This component is the most subjective due to the longevity estimation. No one can confidently predict how long they will live but, for planning purposes, plan for the worst. Longevity and Inflation are the greatest RISKS facing current and future retirees.

RISK *Behavior*:
Of the six RISK components, many investors only consider *Behavior* when assessing their **Risk Tolerance**. This is the only emotional/psychological component (a combination of *attitude* {a mental position with regards to a fact or state} and *perception* {capacity for comprehension}) which is highly fluid and subject to change based on how we "feel" about RISK at any one time. Even though all the remaining components may support a high level of risk taking for an investor, *Behavior* may override all other considerations. Risk *Behavior* requires the most **effort**, **time**, and **concentration** from the investor. It will always be the overriding factor which determines the level of PERSONAL *RISK TOLERANCE*. ***Creating and implementing financial plans, increasing investor education, and, over time, gaining investment experience can help overcome RISK Behavior issues.***

Risk *Management*:
The traditional method of Risk *Management* is diversification. Prior to mid-1990s, extreme stock market volatility was isolated to very narrow timeframes and with little, if any, warning of such occurrences. From the mid-1990s to present, computers and software developments have opened up a new universe of investing called, computerized investing, which traders use for arbitrage (The nearly simultaneous purchase and sale of securities or foreign exchange in different markets in order to profit from price discrepancies) and short-term day trading. Coupled with increased global marketization, we are now experiencing large, volatile stock market swings with each business cycle (The recurring and fluctuating levels of economic activity that an economy experiences over a long period of time). Another tool available to manage the risk of capital loss in this new environment is Long -Term Trend Analysis: Monitoring business cycles (the stock market is a leading indicator) and utilizing true long term stock market trends. Around **business cycle peaks and troughs**, investors, without attempting to "time" the stock market at highs or lows and monitoring simple moving averages, can exit the stock market after the start of a business cycle contraction (**CAPITAL PRESERVATION**) and reenter the stock market after the start of a business cycle expansion (**MARKET VALUE INVESTING)**. If a business cycle typically has 6 - 10 years up and .5 - 1.5 years down, ideally only two stock market moves would be required within a 7 - 12 year period. Depending on the scope of Risk *Management*, higher levels of investment Risk are warranted.

Ultimately, each investor must meld their individual RISK components (*Income*, *Assets*, *Insurance*, *Timeframe*, *Behavior*, and *Management*) to arrive at their unique **Risk Tolerance** factor. As with any planning activity, periodic reevaluations are required to compensate for any significant changes.

If the value of your portfolio were to drop more than 20% in a single year, what would be your response?

____ I would be very worried and tempted to find another way to invest these assets.

____ I would be concerned. I would review and possibly change the investment policy and asset allocation.

____ I would not be happy, but would be willing to ride out the fluctuations in the value of the account.

____ I would recognize it as a good buying opportunity and consider adding to my account(s).

Client Portfolio & Risk Questionnaire

Which of the following best describes your general feelings about the volatility, stability and growth of your investments?

____ I am more concerned with the risk of significant downward fluctuations in the value of this account than with maximizing returns. I am comfortable with balanced, consistent returns if the risk of significant fluctuations could be limited.

____ I want to emphasize long-term growth of this portfolio but am willing to accept somewhat lower returns to achieve some protection against significant downward fluctuations in value.

____ I want maximum growth and, therefore, am willing to accept the likelihood of significant periodic downward fluctuations in the value of this portfolio.

The S & P (with dividends) has provided an annualized return of just over 10% per year over the last 30 years (1981 – 2011). The annualized return for the last 10 years (2001 – 2011) was just under 1.5% for the S & P (with dividends). Substantial growth and significant losses should be expected for any investments in any timeframes. Long-term returns in the future may be significantly above or below the mean expected return (The standard deviation for the 30 year period above was 17.2% and 19.3% for the 10 year period). Higher returns are generally correlated with higher volatility.

Which of the following represents your annual average return objective?

____ 3–6% ____ 6–7% ____ 7–8% ____ 8–9% ____ 9–10% ____ 10% or more

Except for the Great Depression, the longest time that appropriately diversified portfolios have historically taken to recover from declines suffered in a down market has been two to five years depending on asset allocation.

What time to recovery would be acceptable to you?

____ Less than 1 year ____1 to 2 years ____2 to 3 years ____ 3 to 5 years ____ More than 5 years

In a cyclical market decline, lasting 12-15 months on-average, major stock indices drop 20% or more. How much are you willing to lose?

____ None

____ Less than 1/4 of the bear market loss, preserving my investment principal is important

____ Between 1/4 to 1/2 of the loss in a cyclical bear market drop of 20% or more is acceptable

____ Over 1/2 of the bear market loss, but still less than market's bear market decline

____ Unimportant, as maximum capital gains is top priority.

Inflation risk can result in the loss of purchasing power. Rank the importance of beating inflation for you?

____ Not important, preservation of capital is top priority

____ Somewhat important, preservation and income still outrank

____ Moderately important to have purchasing power greater than inflation

____ Important, and understand that accepting increased market risk is required

____ Vital, willing to accept higher risk to increase inflation-adjusted value of my investment portfolio

How predictable (or stable) and sufficient is your source of noninvestment income (Social Security, Pensions, etc.)?

____ Unpredictable, making it difficult to budget or invest

____ Somewhat predictable, but can fluctuate from month-to-month

____ Reasonably predictable, with some excess to invest from time-to-time

____ Predictable and sufficient to allow for periodic investment

____ Very predictable with large excess to invest on regular basis

If retired, what % of your income has some annual inflation adjustment associated with it?

____ Less than 25%   ____ 25% - 50%   ____ 50% - 75%   ____ 75% - 100%   ____ 100%

If retired, what is the percentage of your noninvestment income (Social Security, Pensions, etc.) compared to your required or desired income?

____ Less than 25%

____ 25% to 50%

____ 50% to 75%

____ 75% to 100%

____ 100%

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Investment programs are best build upon a foundation of cash reserves, or funds that are not exposed to market risk. How much do you have?

____ No cash reserves at all

____ 1 to 6 months

____ 6 to 12 months

____ 1 to 2 years

____ Over 2 years

Based upon your current health conditions, your parents and siblings longevity, your general expectations, how much longer do you expect to live?

____ 1 to 5 years

____ 5 to 10 years

____ 10 to 15 years

____ 15 to 20 years

____ 20 to 25 years

____ 25 to 30 years

____ Over 30 years

Proper insurance, both in amount and type of coverage, is fundamental building block for risk management. Do you feel your current insurance coverage in the following areas is adequate enough to avoid a major withdrawal from your investment portfolio if an incident occurred (Yes or No)?

______ Health (including Vision and Dental)

______ Home or Rental

______ Vehicle (Car, Camper, Recreational, Boat, etc.)

______ Life

______ Disability

______ Long Term Care

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Insurance costs continue to rise, often faster than inflation. Also, out of pocket expenses, due to higher deductibles, copays, and coinsurance continue to rise, often faster than inflation. Based upon you current financial condition and your willingness to adjust your standard of living, indicate your preference for future insurance needs:

____ Fully insure with maximum coverage and maximum insurance premiums while reducing my current standard of living to avoid any major financial issues.

____ Fully insure with adequate coverage and reduced insurance premiums while somewhat reducing my current standard of living to avoid any major financial issues.

____ Fully insure with minimum coverage and lower insurance premiums while slightly reducing my current standard of living with expectations of some financial issues.

____ Partially insure with partial coverage and lowest insurance premiums while maintaining my current standard of living with expectations of some minor financial issues.

____ Self-insure with no coverage and no insurance premiums while maintaining my current standard of living with expectations of major financial issues.

If by education and/or experience, your risk tolerance increases (attitude and perception for taking more acceptable risks to potentially achieving more gain or increasing the likelihood of achieving a goal), how willing would you be to adjust your investments to match your increased risk tolerance?

____ Definitely change investments to match my new risk tolerance

____ Probably change investments to match my new risk tolerance

____ Consider changing investments to match my new risk tolerance

____ No change now but open to future changing of investments to match my new risk tolerance

____ Not willing to change investments to match my new risk tolerance