

Risk Profiling with Dynamic Planner

Assessing suitability to risk

“Working in partnership with advisers on a daily basis, it is clear to us that risk-controlled investments are becoming ever more popular.”

**Guy Myles,
Managing Director
and co-founder of
Octopus
Investments**

As an adviser, you'll want to be comfortable that both you and your customers understand how much risk they are willing and able to take and what the potential outcome could be. One way to do this is to use risk profiling.

At Distribution Technology, we use a four-stage risk profiling process to enable advisers and their customers to have quality conversations about their willingness and ability to take investment risk. Although every customer is unique; it is possible to categorise attitudes to risk, using psychometric profiling and this is the starting point.



Psychometric risk profiling

We have developed 10 and 20 question risk profiling questionnaire in conjunction with industry- leading psychometric consultancy, Oxford Risk (a company led by academics from the University of Oxford). Our questionnaires have been shown to have a reliability of 84% (10 question version) and 92% (20 question version) in predicting attitude to investment risk. They take into account a number of factors known to be excellent predictors of attitude to risk, including:

- Risk sensitivity
- Desire for profit
- Tolerance for ambiguity
- Outlook
- Horizon
- Financial awareness
- Investment experience
- Suggestibility

Using risk profiling within Dynamic Planner allows you to:

- Place the customer on a volatility scale of 1-10 with regards their attitude to risk
- Highlight the potential financial upside and downside associated with that risk level

“Mapping our funds with DT’s risk profiles means we can offer advisers an independent and well recognised benchmark to guide their selection process.”

**Tom Sheridan,
CEO of 7IM**

Dynamic Planner You are signed in as Simon Smith | Sign Out | Help
Charles Fitzgerald & Lucy Fitzgerald
Current stage: Fact Find & Financial Planning

ATR \ Investment risk You are here
Mouse over to see more

Risk level screen

Questionnaire results

Charles
[1] [2] [3] [4] [5] [6] [7] [8] [9] [10]

Lucy
[1] [2] [3] [4] [5] [6] [7] [8] [9] [10]

Current portfolio

Charles
[1] [2] [3] [4] [5] [6] [7] [8] [9] [10]

Lucy
[1] [2] [3] [4] [5] [6] [7] [8] [9] [10]

Selecting a risk level

Please select an appropriate risk level

5 - Profile 5 - Low medium risk

What the selected level represents:

5 - Profile 5 - Low medium risk
Your score shows you are in profile 5. This means that your attitude to accepting risk is 'low medium'.

The risk scale is made up of 10 profiles overall. This means that you are about average in how much risk you want to take in your investments.

Your risk score is important in two ways to the type of investments you should consider. These are shown below.

How comfortable you are with the possibility of losing money on your investments
You are likely to be more comfortable and better able to adapt to losing money on your investments than someone whose attitude to accepting risk is lower, for example, someone in profiles 1 to 4. However, you are probably not as comfortable as someone in profiles 7 to 10.

How much you want to invest in higher-risk investments to get better returns
Higher-risk investments such as equities (shares) generally offer higher returns over the long term, but the investments also fluctuate more (go up and down in value). This means that while people may make more money in the long term with higher-risk investments, they are more likely to lose money in the short term.

As your attitude to accepting risk is low to medium, you would probably prefer your investment to go up and down less and make more modest returns than risk losing money for higher returns. However, you are probably prepared to accept some falls in order to make higher returns than just investing in low-risk investments. This means that you could make a loss on the amount you invest, particularly in the short term.

As a result, your preferred investment portfolio will contain a balanced mix of lower risk investments such as cash and bonds, and higher-risk investments such as shares. While a portfolio like this should rise and fall in value less than a higher-risk portfolio, the value of investments can always go down as well as up.

Providing a robust risk profiling process

Dynamic Planner provides a process that promotes good practice in risk profiling:

- Our psychometric risk profiling questionnaire can be completed on- and off-line or via a mobile application. Talk to us about which formats best suit your needs
- Our ‘sense checker’ automatically summarises the answers and highlights inconsistencies, prompting further discussion that can be captured in the report
- In addition to the psychometric questionnaire, we capture additional information about the investment time frame, the customer’s capacity to tolerate losses and their potential liquidity requirements for the investment
- Once the questionnaire has been completed, the adviser and customer can validate the results and agree the risk rating to be used

Dynamic Planner You are signed in as Simon Smith | Sign Out | Help
Charles Fitzgerald & Lucy Fitzgerald
Current stage: Fact Find & Financial Planning

ATR \ Consistency You are here
Mouse over to see more

Response consistency

Questionnaire results

Charles : Profile 4 - Lowest medium risk [1] [2] [3] [4] [5] [6] [7] [8] [9] [10]

Lucy : Profile 5 - Low medium risk [1] [2] [3] [4] [5] [6] [7] [8] [9] [10]

Response discussion

A number of the responses to the risk questionnaire seem to be out of alignment with the overall result. Assuming the client fully understood all questions, please document any discussions around the following questions:

Charles

| Question | Response | Discuss? |
|--|---------------------------|----------|
| 1: I would be willing to risk a percentage of my income in order to get a good return on an investment | Strongly disagree | - |
| 2: To achieve high returns, it is necessary to choose high-risk investments | Disagree | - |
| 3: When I am faced with a financial decision I am generally more concerned about the possible losses than the probable gains | Disagree | ? |
| 4: I would rather know that I was getting a guaranteed rate of return than be uncertain about my investments | Disagree | ? |
| 5: Compared to the average person, I take lower financial risks | Neither agree or disagree | - |
| 6: I would rather put my money in a bank account than invest in shares | Disagree | ? |
| 7: I do not feel comfortable with financial uncertainty | Disagree | ? |
| 8: I would accept potential losses in order to pursue long-term investment growth | Neither agree or disagree | - |
| 9: Taking financial risks is important to me | Disagree | - |
| 10: I would be happy investing a large proportion of my income in a high-risk investment | Disagree | - |

Lucy

| Question | Response | Discuss? |
|----------|----------|----------|
| | | |

The final report includes the responses for the attitude to risk questionnaire and the suitability questions, as well as any additional information the adviser captured in conversation with the customer. It provides a risk profile, a description of what that risk means, an indication of the likely range of investment outcomes over a 12 month period and quality graphics. This can be printed or e-mailed to the customer.

Integration with Dynamic Planner

A core component of Dynamic Planner, risk profiling is integral to our fact find and investment planning processes. Completing a standard risk profile generates a target asset allocation, which can be then compared to the customer's existing portfolio. If required, the adviser can then continue and choose investment funds or portfolios that have also been mapped against the same risk profiling categories. This can help them ensure that their recommendations are suitable for that customer's risk profile.

Dynamic Planner risk profiling enables advisers to enrich their relationships with their customers by comparing current assets against the ideal risk portfolio



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The addition of the Dynamic Planner Investing module provides:

- Capture and x-ray of customers' current holdings
- Current and target asset allocation charts
- Ability to capture and plan for multiple goals
- Stochastic forecasting for current, target and recommended positions
- Portfolio construction with whole of market fund data and support for model portfolios
- Fund selection from a range of Risk Profiled Funds, analysed by Distribution Technology to provide a mapping into the Dynamic Planner 10 risk profiles

| Risk profiling check list | Available in Dynamic Planner |
|---|------------------------------|
| Attitude to Risk Questionnaire | |
| Number of questions sufficient to test the customer | ✓ |
| Questions and answers are clear and unambiguous | ✓ |
| Prompts for discussing potentially conflicting responses included | ✓ |
| Risk Profiles | |
| Investment range includes deposits | ✓ |
| Profile descriptions clear and detail the asset types and balance of assets | ✓ |
| No large leaps in exposure to asset classes between profiles | ✓ |
| MI can identify cases where the risk level and advice given differ | ✓ |
| Risk profiled funds available | ✓ |
| Capacity for loss | |
| Includes an investment timeframe | ✓ |
| Covers access to capital requirements | ✓ |
| Quantifies likely gains or losses | ✓ |

To find out more, please contact the team on 0118 903 5850 or email us at info@distribution-technology.com

We're here to help you enrich your business

