

WHAT IS YOUR

# INVESTOR PROFILE?



## PURPOSE

- Helping young people discover the different investor profiles.
- Enabling young people to link suitable financial products with investor profiles.
- Understanding the risk and return trade-off.

## SEQUENCE

The roughly 30-minute activity consists in role playing. The class is broken down into teams of three or four.

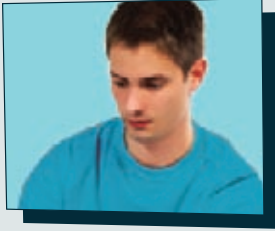
- 1** The teacher introduces three investors with typical behaviours and personalities.
- 2** The teams are to identify the investor profile (conservative, moderate, aggressive) corresponding to each character and to justify their choices.
- 3** Then the teams propose a financial strategy and select from the various financial products submitted, those that correspond best to the different investor profiles.
- 4** The teacher then asks the students to discuss their own tolerance to risk and determine their own investor profile using the test.

**Discover your investor profile.**





## FREDERICK



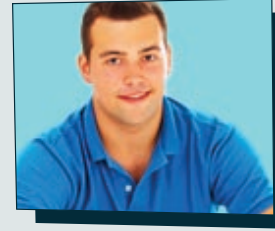
Frederick has already started investing in order to go on a trip. To achieve his goals, he prefers security. His motto is, "A bird in the hand is worth two in the bush." He tells himself: "Slow and easy wins the race."

## KIM



Kim can live with the value of his investments rising and falling slightly. She has a good summer job and won't need all his money during the upcoming year. However, she wouldn't want to risk losing everything. What would suit her is a combination of security and return.

## ALEXANDER



Alexander is not afraid of anything. He is ready to risk losing what he owns, if there is a good possibility of making money. He is not at all interested in investments with a return of two or three per cent annually. His motto is, "No risk, no gain."

# INVESTOR PROFILES

## CONSERVATIVE

The conservative investor does not like risk. He can't stand the idea of losing money. He invests his savings in secure investments. He accepts lower returns on his investments in order to make sure his money is available when needed.

## MODERATE

The moderate investor tends to invest the money he has accumulated in reasonably risky investments so as not to lose his initial investment and generate a certain profit.

## AGGRESSIVE

The aggressive investor tends to invest his money in risky investments in order to generate greater rates of return. Losing money because of market fluctuations is quite normal to him.



## THE FINANCIAL PRODUCTS AVAILABLE ARE:

- Shares (stocks)
- Guaranteed investment certificates (GICs)
- Bonds
- Savings bonds
- Mutual funds

### DON'T FORGET THE RISK AND RETURN TRADE-OFF

Each financial product has its own features. Some investments are low risk, but provide low returns. Others offer potentially higher returns, but are more risky. The relationship between risk and return is proportionate. When you invest money, always remember this very simple equation...

For high risk, potentially high gains, but losses may be just as high.

For low risk, potentially low losses, but gains may be just as low.

## QUESTIONS

1

What is the investor profile of

Frederick? \_\_\_\_\_

Kim? \_\_\_\_\_

Alexander? \_\_\_\_\_

2

Which financial products are most suitable for the investor profile of... (Justify your answers)

Frederick? \_\_\_\_\_  
\_\_\_\_\_

Kim? \_\_\_\_\_  
\_\_\_\_\_

Alexander? \_\_\_\_\_  
\_\_\_\_\_



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## Answers:

### 1

Frederick? Conservative

Kim? Moderate

Alexander? Aggressive

### 2

#### **Frederick**

Frederick couldn't bear to see his savings vanish. Chances are he would put his money in safe investments with low returns to better protect his capital, such as savings bonds and guaranteed investment certificates.

#### **Kim**

Kim is willing to take a bit of a risk, but to better protect her money, she prefers to diversify her investments rather than invest only in safe investments or risky investments. She would therefore tend to invest a portion of her money in riskier products such as equities, bonds and mutual funds, and another portion in safe products like guaranteed investment certificates and savings bonds.

#### **Alexander**

Alexander is an aggressive investor. He is prepared to take high risks to achieve high returns. He would therefore tend to buy financial products such as equities, bonds and mutual funds.



Investor profiles help determine a person's tolerance to risk. You can get an idea of what type of investment suits you by answering questions like: "How would I feel if the shares I invested in lost 20% of their value?"

You never find two identical investors and there is no product or investment strategy that suits everyone. Young investors with long-term objectives can usually accept higher risks.

## INVESTOR PROFILE

Answer the following questions as honestly as possible to determine your own investor profile.

### DISCOVER YOUR INVESTOR PROFILE

#### 1 I would lose sleep if I invested in shares and they fell 20% in value.

- I fully agree.
- I generally agree.
- I slightly disagree.
- I totally disagree.

#### 2 Suppose each of the investments below can only result in one of two outcomes. The odds are equal that it could be either of the results. If you had to invest all your savings from last summer, which of the following investments would you choose?

- Investment 1: No gain or a 2% gain
- Investment 2: A 5% loss or a 10% gain
- Investment 3: A 10% loss or a 20% gain
- Investment 4: A 15% loss or a 30% gain
- Investment 5: A 40% loss or a 80% gain



## DISCOVER YOUR INVESTOR PROFILE (CONTINUED)

**3** You invest \$500 in shares of a large well-known corporation. After two months, they are worth \$1,000. What would you do?

- I sell them in a hurry in order to pocket a profit.
- I sell a sizeable number of them, but I hold on to some in case the shares keep climbing.
- I hold on to all of them.
- I buy more using the money I earned in the meantime.
- I purchase more and borrow money from my parents to buy even more.

**4** You invest \$500 in shares of a large well-known corporation. After two months, they are worth \$250. What would you do?

- I sell them in a hurry so that I don't lose everything.
- I sell a sizeable number, but I keep some in case the shares climb again.
- I hold on to all of them. They will eventually go up.
- I buy some more using the money I earned in the meantime. For this price, it's a bargain!
- I buy some and borrow from my parents to buy even more. At this price, all I need is for the shares to go back to their initial value so I can make a small fortune!

**5** I have the choice of investing in the funds below. The maximum and minimum returns over the past 10 years are indicated. Which one do you prefer?

	Minimum Annual Return	Maximum Annual Return
<input type="checkbox"/>	0%	5%
<input type="checkbox"/>	- 2%	9%
<input type="checkbox"/>	- 5%	14%
<input type="checkbox"/>	- 10%	20%
<input type="checkbox"/>	- 20%	35%



## DISCOVER YOUR INVESTOR PROFILE (CONTINUED)

### 6 Not losing the money I saved is:

- Crucial. I would not tolerate losing my money.
- Important. I would get over it, but it would be very difficult.
- More or less important. It is not the end of the world. I will make up for it with other investments.
- It wouldn't affect my life. I know these things can happen, but in the long run, with a balanced portfolio, I will eventually come out on top.

### 7 I will need to recover my investment:

- In the next few days
- In the next few weeks
- In the next few months
- In the next few years
- When I retire

### 8 Did you ever invest in a risky instrument?

- No, and I am not interested either. I prefer safe investments.
- Yes. I didn't like it and I would prefer not to do it again.
- No, but as soon as I can afford it, I will try it.
- Yes. I enjoyed the experience and am willing to do it again.



## DISCOVER YOUR INVESTOR PROFILE (CONTINUED)

**9** You are offered the choice between a highly-paid summer job, but you know the company won't hire you again next year, or a much lower-paid job, but you are sure you can keep the job as long as you want. Which one would you choose?

- I prefer the lower-paid job: A bird in the hand is worth two in the bush!
- I don't know what to do.
- I prefer the higher-paid job. I can always find something else later on.

**10** My knowledge of different types of investments is...

- Very rudimentary
- Rudimentary
- Extensive
- Very extensive



**GET YOUR RESULT**

**YOUR PROFILE:**

**START AGAIN**



## RESULTS

### 14 points and less

#### CONSERVATIVE INVESTOR

You prefer safe investments to riskier ones. You don't like risk. You accept lower returns, but you prefer knowing ahead of time what returns you will earn.

You might even feel stressed over the idea of losing money.

In the long run, you have to realize that investing in more secure investments has a price: lower returns. The important thing for you is to start saving early to make up for the lower returns you might earn.

Don't forget to shop around among financial institutions before investing: There are significant differences in the rates of return generated by secure investments from one institution to the other.

### 15 to 25 points

#### MODERATE INVESTOR

You are ready to take calculated risks to earn higher returns, but you are not willing to lose a significant portion of your capital. Diversifying your investments carefully can provide you with returns that will not fluctuate too much.

For instance, by holding at the same time guaranteed investment certificates, bonds and shares, you will benefit from the generally higher growth generated in the long term by riskier instruments while mitigating the risk.

### 26 points and more

#### AGGRESSIVE INVESTOR

You are not afraid of risk. You can stand losing a large part of your capital because you believe that in the long run, you'll probably come out on top. After all, as you say, "No risk, no gain."

Don't trust yourself! Several investors think they have this profile, but once their investments turn sour, they realize they are not aggressive investors and begin to feel stressed over their losses.

Be careful: If you are going to invest based on this profile, you should not be needing this money in the short term. Otherwise, you might have to sell investments that have lost some value.

Make sure you understand the investments in which you invest.

The *Autorité des marchés financiers* (AMF) developed this questionnaire to give you an idea of what an investor profile is and the type of questions your financial institution may ask to help you determine your own profile. The AMF may not be held liable for any consequences arising from actions taken based on results. Consult a securities representative for more specific results tied to your investor profile.



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