Risk Profiling

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Griffith Business School

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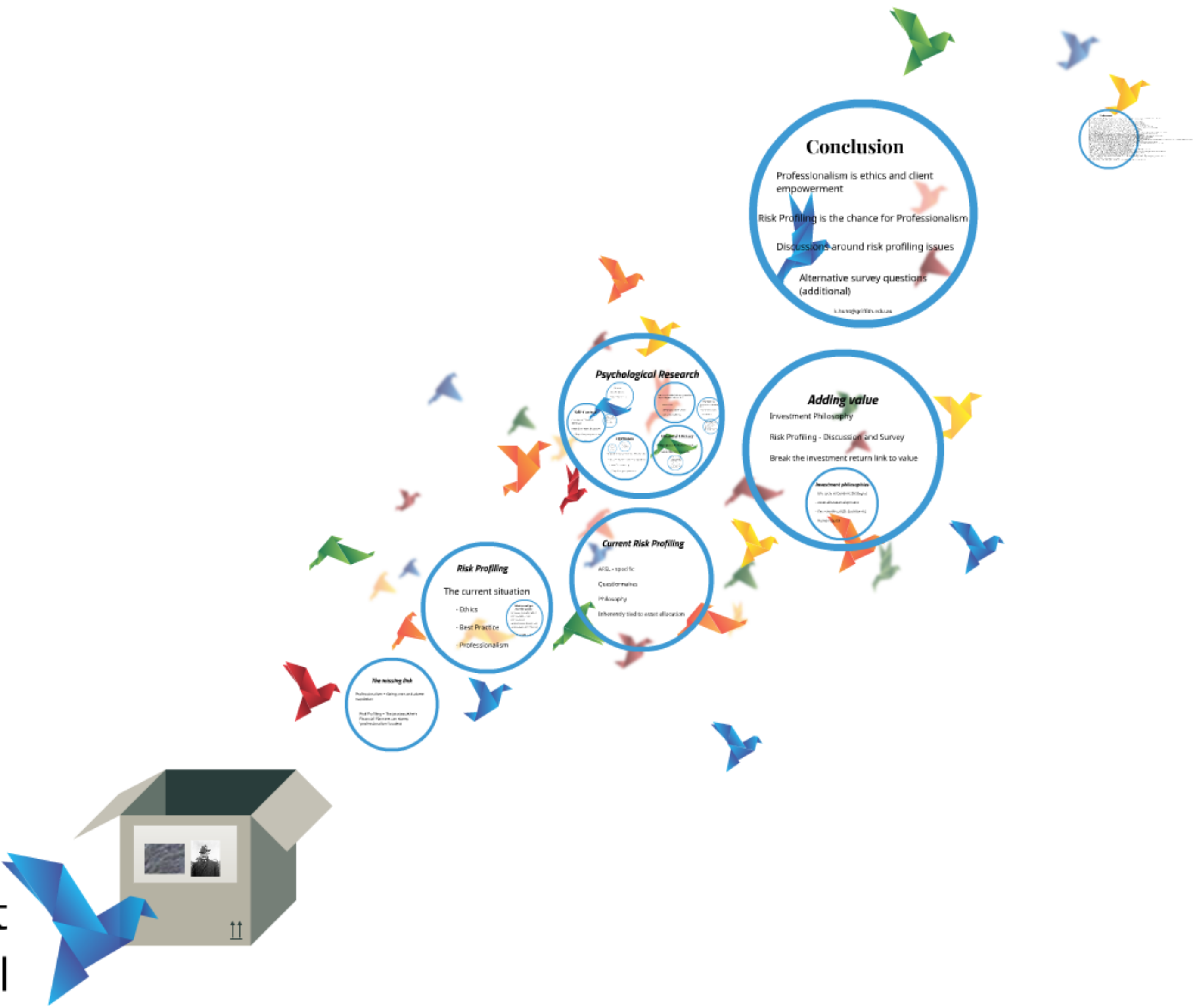

Risk Profiling

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The missing link

Professionalism = Going over and above regulation

Risk Profiling = The process where Financial Planners can stamp 'professionalism' loudest

Risk Profiling

The current situation

- Ethics

- Best Practice

- Professionalism

What you will get from this session

How to go over and above the regulation

Risk Profile discussion prompts

Risk Profile Questions

Access to a survey you can use with clients

Access to aggregate data from the surveys

k.hunt@griffith.edu.au

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Current Risk Profiling

AFSL - specific

Questionnaires

Philosophy

Inherently tied to asset allocation

Psychological Research

Experiments

Train Lever Dilemma

What does that teach us?

How does this relate to how a professional risk profiling process looks like?

- Discussions
- Survey questions for clients
- Self-survey and reflect

Risk Tolerance

- Business owners are highly risk tolerant
- Female-headed households
- Irrational behaviour

Objective Risk Tolerance Measures

Self-Control

- Predictor of Financial Behaviour

(more than Financial Literacy!)

- Impact on your processes

Self-Control Surveys

Optimism

- Optimism Bias > Inaccurate Forecasting
- Business owners are overly optimistic
- Lower fee sensitivity
- Impact on your processes

Financial Literacy

- Helps people in financial shock
- Financial literacy programs

Financial Literacy Survey

Experiments

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Gathergood, 2012

Self-Control Surveys

Rate these Questions on a scale of 1 t
(1=SA, 5=SD)

A) I am impulsive and tend to buy things ev
can't really afford them

B) I am prepared to spend now and let the f
care of itself

C) Financial services are complicated and co
me

Self-Control Surveys

Rate these Questions on a scale of 1 to 5 (1=SA, 5=SD)

A) I am impulsive and tend to buy things even when I can’t really afford them

B) I am prepared to spend now and let the future take care of itself

C) Financial services are complicated and confusing to me

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processes

Optimism

Optimism Surveys

Rate these Questions on a scale of 1 to 5 (1=SA, 5=SD)

A) I can make a positive difference to my life.

B) I have the ability to help people.

- High Optimism:

  Harder working
  More savings
  Later retirement
  Select short-term debt
  Overestimate future income

- Optimism Bias > Inaccurate Forecasting

- Business owners are overly optimistic

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Higher Risk Tolerance for
- More years to retiremen
- More liquid assets
- Higher monthly investm
- Male and couples
- Homeowners with mort

Sung and Hanna (1996)

sting

istic

Financial Literacy

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Financial Literacy Surveys

A) Suppose you had $100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow:
- more than $102 - exactly $102 - less than $102?

B) Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After 1 year, would you be able to buy more than, exactly the same as, or less than today with the money in this account?

3) Do you think that the following statement is true or false?
"Buying a single company stock usually provides a safer return than a stock mutual fund."

Lusardi (2008)

Financial Literacy Surveys

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Objective Risk Tolerance Measures

Higher Risk Tolerance for clients with:
- More years to retirement
- More liquid assets
- Higher monthly investment earnings
- Male and couples
- Homeowners with mortgages

Sung and Hanna (1996)

How does this relate to how a professional risk profiling process looks like?

- Discussions

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- Self-survey and reflect

- Busin
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- Femal

- Irra

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Financial Literacy Survey

Adding value

Investment Philosophy

Risk Profiling - Discussion and Survey

Break the investment return link to value

Investment philosophies

- Life-cycle vs Dynamic Strategies
- Asset allocation alignment
- One-size-fits-all (Default funds)
- Human capital

Investment philosophies

- Life-cycle vs Dynamic Strategies

- Asset allocation alignment

- One-size-fits-all (Default funds)

- Human capital

Conclusion

Professionalism is ethics and client empowerment

Risk Profiling is the chance for Professionalism

Discussions around risk profiling issues

Alternative survey questions (additional)

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