

Investment Risk Discussion

This document will provide you with a general overview of the risk associated with various securities to better help you understand investment risks in the context of your risk profile. To help your financial advisor assess your risk profile, you may be asked to complete a risk tolerance questionnaire. We suggest that clients review this document prior to completing the risk tolerance questionnaire.

T-Bills and bank deposits are generally considered risk free investments. In order to earn investment returns that exceed those of risk free investments, investors must be prepared to accept some risk. Generally, the higher your targeted return, the higher the risk associated with the investment. In other words, a portfolio consisting primarily of Low risk securities should be expected to achieve a return in the range of 1% to 3% given the current interest rate environment, whereas a target return of 10% will dictate a portfolio consisting largely of medium and high risk securities.

Clients with risk tolerance scores in the lowest quintile should consider holding 50% to 100% of their portfolio in low risk investments. Conversely, clients with risk tolerance scores in the highest quintile may consider holding 50% to 100% of their portfolio in high risk investments.

Every investment available to you through RJL is rated by RJL as low, medium, or high risk. The overall risk associated with your investment holdings is determined by summing the holdings in each risk category (on a value weighted basis). RJL assesses the suitability of your investments by comparing the overall risk percentages of your investment holdings to the risk tolerance you agree upon in discussion with your financial advisor.

Following are some general examples of the types of investments that typically fall into each of the three risk categories:

Low Risk	Medium Risk	High Risk
GICs, T-Bills, Money Market Funds. Govt. of Canada Bonds with medium or shorter term maturities. Corporate Bonds with very good credit ratings and medium or shorter term maturities. Some ETFs (typically laddered bonds). Some Fixed Income or Balanced Mutual Funds.	Common Shares in large and moderate sized companies with moderate or lower volatility. Preferred Shares with moderate or better credit ratings. Most Equity and Balanced Mutual Funds. Most non-leveraged ETFs. Bonds with good or better credit ratings and medium-term maturities. Bonds with moderate credit ratings and shorter term maturities.	Common Shares in large and moderate sized companies exhibiting higher volatility. (Growth) Some Specialized Mutual Funds. (Growth) Most Hedge Funds Bonds with sub investment grade credit ratings. Bonds with longer term maturities. Preferred Shares with lower credit ratings. Leveraged or Inverse ETFs. (Speculative) Common Shares with small or inconsistent revenue. (Speculative) Common Shares trading below \$5. (Speculative) Shares in private companies. (Speculative)

ETF = Exchange Traded Fund

FREQUENTLY ASKED QUESTIONS

1. **How can any questionnaire be used to accurately assess my risk tolerance?** The risk tolerance questionnaire should be viewed as the first of two steps in assessing risk tolerance. Your responses to the questionnaire will generate a risk score, which is aligned to one of five general risk categories. Your assigned category is your preliminary risk tolerance. Your final risk tolerance will be determined through further discussions with your advisor. Your final risk tolerance will be recorded in terms of %Low, %Med, %High (totalling 100%).

It is acknowledged that any questionnaire will be subject to some error. For example, a given question may be misinterpreted by a given client, or a client's mood may result in slightly different responses if the questionnaire is completed on two different occasions. The more questions that are asked, the smaller the impact of any errors associated with any one question. Statistical studies suggest that in order to reliably distinguish between five risk categories; a questionnaire should contain a minimum of 12 – 15 questions.

The results of the questionnaire will have some impact on the composition of your portfolio. Accordingly, you are encouraged to contemplate each question carefully, and to select responses that best reflect your views and attitudes.

2. **What if none of the multiple choices for a given question apply to me?** In order to calculate a risk score, all 17 questions must be answered. If a given question does not include your preferred response, you should select the response from the available choices that best fits your situation.

3. **What if I need more information?**

Some questions provide limited information and the available responses may not precisely suit your particular situation. The risk tolerance questionnaire was designed so that it could be applied to a very broad spectrum of clients. Hence, the questions and responses were designed to address various attitudinal characteristics by gauging how clients respond to a particular situation given limited information. It is important to understand that no one question will unduly affect your risk score, and that all you need to do is answer each question to the best of your abilities based on the available information.

4. **What if I don't understand a question?** To avoid bias, and to ensure results accurately reflect your outlook, the questionnaire should be completed on your own. If you feel a question can be interpreted in more than one way, you might ask your advisor for clarification, but you should not ask your advisor which response they feel you should select.
5. **General considerations.** Generally speaking, if you are uncertain about a question or response, the neutral response will often be the best choice. For example, if you are uncertain as to your risk tolerance relative to your friends and associates, then you don't really have an opinion one way or the other and should likely choose "neutral" or "average". Responses of "strongly agree", or "strongly disagree" should be used only when you fully understand the question, the question is very applicable to your situation, and you have a strong opinion one way or the other. The scoring protocol places greater emphasis on strong opinions.