

# ***Investment Policy and Risk Tolerance Discussion Guide & Questionnaire***

## **Lotzer & Co., Inc.**

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*Client Name:*

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*Co-Client Name:*

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*Advisor Name*

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*Date (mm/dd/yy)*



## *Documents We Will Need From You*

If we do not already have them, we will need the following from you:

### **Federal Tax Return**

- Most recent

### **Investment Statements** (Your most recent copy of)

- Investment Brokerage Accounts
- Investment Accounts
- Stock Option Grants
- Company Stock
- Employee Stock Purchase or ESOP
- Mutual Funds
- Bank Accounts
- Money Market Accounts
- Partnerships (K-1 report, if you don't have anything else)
- Others

### **Retirement Account Statements**

- IRA
- Keogh
- SEP
- 401(k)
- 403(b)
- Other Company Retirement Accounts
  - Profit Sharing Plan
  - Money Purchase Plan
  - Defined Benefit Plan

### **College Funding Account Statements**

- UTMA
- 529 State College Savings
- Education IRA



What is the approximate value of the assets in the investment portfolio you are considering having us manage?  
\$ \_\_\_\_\_

What percentage of your total investments does this portfolio represent? \_\_\_\_\_ %

## *Your Investment Objectives*

### 1. Please describe your investment goals/objectives

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### 2. Are you satisfied with the way in which you are accomplishing your investment goals?

Yes  no

Please explain \_\_\_\_\_

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### 3. What is your primary objective for this investment portfolio? (check one)

- To assure the safety of my principal
- To generate income. If so, how much will you need annually? \$ \_\_\_\_\_
- To achieve a particular investment goal. If so, what goal(s) \_\_\_\_\_
- To accumulate assets for retirement
- Other. Please explain \_\_\_\_\_

### 4. Prioritizing Objectives

Most of us have several objectives relating to our investments. Please choose among the following objectives, assigning them points (the more points assigned, the more important you think the priority is). The points should total 100.

Safety/Capital Preservation	___ Points
Capital Appreciation	___ Points
Liquidity	___ Points
Inflation Protection	___ Points
Current Income	___ Points
Tax Shelter	___ Points
Total	100

### 5. Do you expect to have a need for income from this portfolio within five years?

Yes \_\_\_\_\_ No \_\_\_\_\_

If yes, when will the income or withdrawal be needed? In \_\_\_\_\_ years

**6. Will significant deposits or withdrawals be made over the next five years?**

Yes \_\_\_\_\_ No \_\_\_\_\_

If yes, please attach a listing of their anticipated amount and timing

**7. Return Targets**

Given the fact that over the long run (from 1927 to 2000), U.S. stocks have generated historical returns of about 10-13%, U.S. bonds have returned 5-6%, money markets have returned 3-4% and U.S. inflation has been approximately 3%, what do you expect the total return of your investment portfolio to be over the long-term? (check one)

- |                               |  |
|-------------------------------|--|
| <input type="checkbox"/> 3-5% | <input type="checkbox"/> 10-11%        |
| <input type="checkbox"/> 6-7% | <input type="checkbox"/> 12-14%        |
| <input type="checkbox"/> 8-9% | <input type="checkbox"/> more than 15% |

**8. What is your Investment Time Horizon for this portfolio?**

*Investment Time Horizon* refers to the number of years you expect the portfolio to be invested before you make substantial withdrawals from the portfolio. Alternatively, how long will the objectives stated for this portfolio continue without substantial modification?

Please mark your choice:

- 3 years     5 years     10 years     More than 10 years

**9. Do you have any “socially responsible” concerns or issues that you would like to see manifested in your portfolio? If so, please describe \_\_\_\_\_**

\_\_\_\_\_

\_\_\_\_\_

**10. What tax considerations would you like us to keep in mind in managing your portfolio?**

- If possible, I would like to reduce the current level of tax I pay.
- I would like to better control my future taxable distributions and income.
- I have unused tax losses available
- Tax management of my investment portfolio is not a concern

***Your Tolerance for Risk***

Your comfort level with investment risk influences how aggressively or conservatively you choose to invest. It should be balanced with the potential of achieving your investment goals.

**11. How would you describe your knowledge of investments? (check one)**

- None
- Limited
- Good
- Extensive

**12. What is your investment temperament? (check one)**

- I am more interested in conserving capital than growth. I prefer to accept moderate income and little or no growth in exchange for stability and minimum risk.
- I understand that in order to achieve higher returns, it is necessary to take some risk. I am willing to accept moderate volatility in the value of my portfolio in exchange for greater income and/or growth potential.
- I understand that to achieve higher returns, it is necessary to take some risk. I am willing to be more aggressive and face greater risk in order to pursue the possibility of above average rates of return.

**13. An investment decision involves the possibility of high return as well as the possibility of suffering a loss. What influences your thinking the most when making an important investment decision? (check one)**

- I'm mainly influenced by the potential gain.
- I'm more influenced by the potential gain than by the potential loss.
- I'm more influenced by the potential loss than by the potential gain.
- I'm mainly influenced by the potential loss.

**14. Which of the following statements best describes what your reaction would be to short-term fluctuations in this investment portfolio?**

- I would be extremely uneasy about any fluctuations in the value of my investment.
- I would be very concerned about short-term fluctuations in the value of my investment.
- I would have some worries about short-term fluctuations in the value of my investment.
- I would have very little concern about short-term fluctuations in the value of my investment.

**15. Imagine that the stock market has dropped 20% in value over the last year. A stock or mutual fund that you own has also dropped 20% in value. What is your reaction? (Please check one only.)**

- Sell all my shares
- Sell some of my shares
- Keep all my shares
- Keep all my shares and buy more shares

**16. Please check the statement that reflects your preference. (Check One Only)**

- I would rather be out of the stock market when it goes down than in the market when it goes up (i.e. I cannot live with the volatility of the stock market).
- I would rather be in the stock market when it goes down than out of the market when it goes up (i.e. I may not like the idea, but I can live with the volatility of the stock market in order to earn market returns.)

**17. If you could increase your chances of having a more comfortable retirement by taking more risk, would you**

- Be unlikely to take much more risk?
- Be willing to take a little more risk with some of your money?
- Be willing to take a little more risk with all your money?
- Be willing to take a lot more risk with all your money?

**18. Except for the "Great Depression," the longest time investors have had to wait after a market "crash" or a really bad market decline, for their portfolio to return to its earlier value has been: 4 years for stock and 2 years for bond investments. Knowing this, and that it is impossible to protect yourself from an occasional loss if you choose to invest at least some of your portfolio in stocks, please answer the following question:**

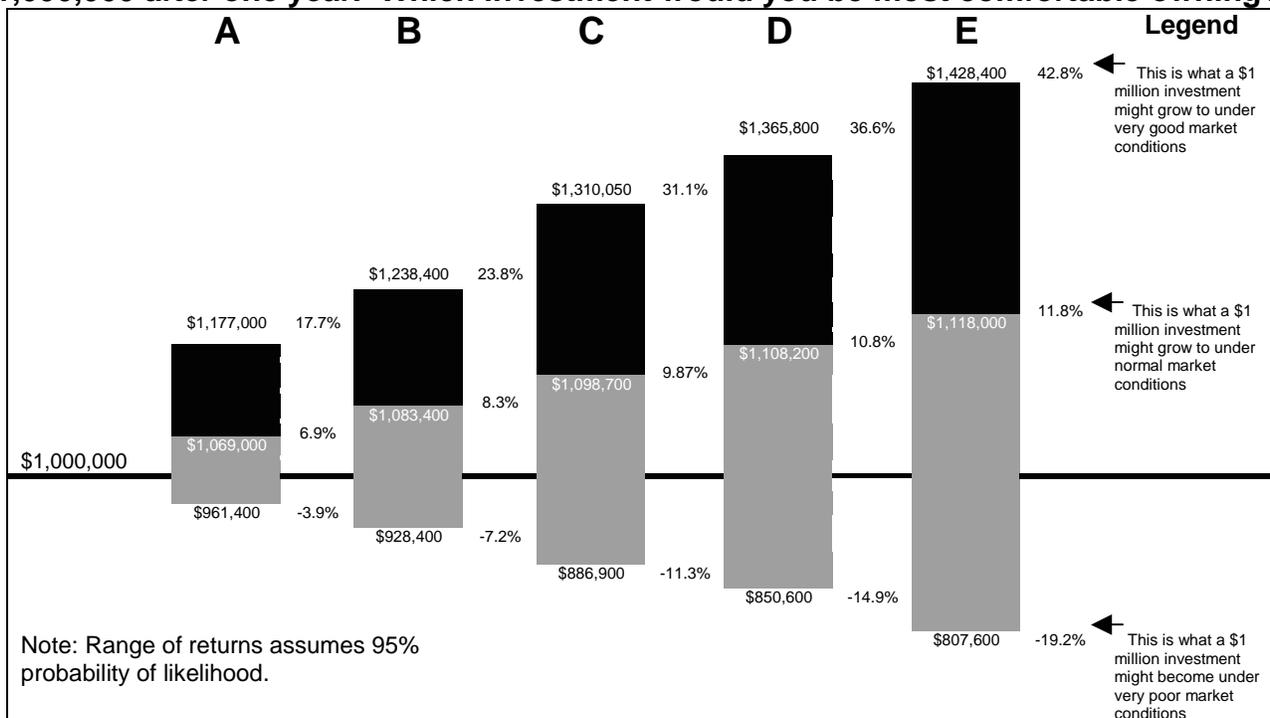
If my portfolio is designed to produce a long-term return that should allow me to accomplish my goals, I am prepared to live with a time of recovery of..."

Less than one year.	<input type="checkbox"/>
Between one and two years.	<input type="checkbox"/>
Between two and three years.*	<input type="checkbox"/>
Over three years.	<input type="checkbox"/>

\*If you select a period of three years or less, are you prepared to substantially reduce your goals? (Please circle one.)

Yes No

19. The following chart shows the historical range of values for four different investments of \$1,000,000 after one year. Which investment would you be most comfortable owning?



Choose One:

- Investment A
  Investment B
  Investment C
  Investment D
  Investment E

## Dealing with Investment Declines

Over the past 75 years (beginning in 1926 and ending in 2000), the U.S. stock market (as measured by the S&P 500 Index) has produced a compound return of 11.1%. During this time, the annual calendar year return for the U.S. stock market has:

Size of Market Drop	Frequency
Decreased over 25%	3 times
Decreased 15%-24.9%	1 time
Decreased 10%-14.9%	4 times
Decreased 5%-9.9%	8 times
Decreased 0%-4.9%	5 times
Increased in value	54 times

20. Given the above information, which statement best reflects your attitude about investing in the U.S. stock market? (Choose one)

- I am unwilling to experience any reduction in the value of my investments.
  I can tolerate infrequent, very limited declines (less than 5%) through difficult phases in a stock market cycle.
  I can tolerate limited declines (5-10%) through difficult phases in a stock market cycle.
  I can tolerate periods of moderate negative returns (declines of 10-15%) to achieve potentially higher investment returns. I recognize and accept that negative returns could persist for a year and possibly longer.
  I can tolerate periods of significant negative returns (greater than 20%) for the chance to maximize my long-term returns. I recognize and accept that negative returns could persist for a year and possibly longer.

**21. To achieve the investment returns you want, how much decline would you be willing to tolerate in a given year in your investment portfolio?**

- |                                 |                                 |
|---------------------------------|---------------------------------|
| <input type="checkbox"/> None   | <input type="checkbox"/> 0-5%   |
| <input type="checkbox"/> 5-10%  | <input type="checkbox"/> 10-15% |
| <input type="checkbox"/> 15-20% | <input type="checkbox"/> 20+%   |

## *Your Financial Capacity to take Risk*

Your ability to accept risk is not only influenced by your emotional tolerance for risk. The appropriateness of whether or not you should accept more or less risk is also influenced by the relative strength of your personal finances. With that in mind, please rank your current personal financial strength in each of the following areas:

**22. Your Financial Capacity to take on risk**

Rate each on 1 (weak) to 10 (strong) scale:

- |  |          |
|--|----------|
| a) Cash Reserves                           | a) _____ |
| b) Income Stability                        | b) _____ |
| c) Cashflow Strength (spending vs. income) | c) _____ |
| d) Insurance Coverage                      | d) _____ |
| e) Overall Wealth (relative to your needs) | e) _____ |
| f) Fixed Obligations as % of Income        | f) _____ |

## *Investment Policy Items*

**23. How would you describe your outlook for your own finances over the next...**

	<i>1 Year</i>	<i>5 Years</i>	<i>10 Years</i>
a. Very Positive	___	___	___
b. Modestly Positive	___	___	___
c. Neutral	___	___	___
d. Modestly Negative	___	___	___
e. Very Negative	___	___	___
f. I am Undecided	___	___	___

**24. What is your outlook on inflation for the next...**

	<i>1 Year</i>	<i>5 Years</i>	<i>10 Years</i>
a. It will increase	___	___	___
b. It will be steady	___	___	___
c. It will decrease	___	___	___

**25. Capital Needs Analysis**

If a Capital Needs Analysis has been performed for you, what rate of return did it indicate will be needed for you to accomplish your goals? \_\_\_\_\_%

**26. Frequency of Review**

- A. Evaluation of how well we managed your portfolio will occur every \_\_\_ years
- B. Frequency of review of this IPS will occur every \_\_\_ years

## 27. Rebalancing Procedures

<p>As a “Re-balancing trigger” used in the on-going management of your investment portfolio we generally consider it time to make changes when any asset class in your portfolio differs from its target allocation by 5% or more.</p>	<p>Please indicate whether or not that is an acceptable approach for your portfolio</p> <p><input type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p>
<p>Lotzer &amp; Co., Inc. accepts full discretion to make re-balancing portfolio changes as long as approved policy targets and existing investments are utilized.</p>	<p>Please indicate whether or not that is an acceptable approach for your portfolio</p> <p><input type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p>

Prudent investment diversification involves the use of different asset classes in a portfolio (e.g. cash, stocks, bonds). Since each asset class will often react differently to given economic conditions, diversification can lower a portfolio’s overall volatility (risk).

## 28. INVESTMENT CONSTRAINTS

Are there any securities types or classes that you do not want to have in your portfolio or that you would like to impose limits upon? If so, please check the appropriate items below so that we can discuss your concerns further:

### Asset Classes

- Municipal Bonds
- Government or Corporate Bonds
- High Yield Bonds
- Non-U.S. Bonds
- U.S. Equities – Large Companies
- U.S. Equities – Small Companies
- Foreign Equities – Developed Country
- Foreign Equities – Emerging Market
- Real Estate Securities/REITS
- Hedge Funds
- Commodities
- Venture Capital

### Securities Types

- Individual Stocks or Bonds
- Open-ended Mutual Funds
- Closed-end Mutual Funds
- Exchange Traded Funds
- Managed Separate Accounts
- Investment Partnerships
- Futures, Options, Puts, Short Sales

## 29. Liquidity

When cash (money market funds, bank CD's, etc.) is kept as part of a portfolio, some people want or need a specific portion to remain as cash, so it can be easily called upon. As part of this investment portfolio you wish to maintain:

- No minimum liquidity needs (cash is handled separately).
- A minimum of \_\_\_\_\_% of total investments in cash/cash equivalents.
- At least \$\_\_\_\_\_ in cash/cash equivalents.

For how long will these needs apply?

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Up to what percent can this portfolio be invested in long term, illiquid investments (in other words ones that could not be quickly turned in to cash except at a large sacrifice)?

- 0%
- 10%
- 20%
- 30%
- 40%

**30. Other Investment Considerations** (Optional)

- A. Maximum average bond maturities No more than \_\_\_\_\_ years
- B. Maximum individual bond maturity No more than \_\_\_\_\_ years
- C. Maximum portion of portfolio in a single fund No more than \_\_\_\_\_ %
- D. Maximum portion of portfolio in a single security No more than \_\_\_\_\_ %
- E. Management Style
  - Passive                       Active
  - Combination               No Preference

**31. Frequency of Meetings**

How frequently would you like to meet with us to discuss your investments?  
\_\_\_\_\_ Quarterly      \_\_\_\_\_ Semi-annually      \_\_\_\_\_ Annually

The Analysis and Recommendations we will develop for you are specifically tailored to your situation and their appropriateness is dependent upon the accuracy of the information you provide in this questionnaire.

**Signatures:**

\_\_\_\_\_

Client

\_\_\_\_\_

Date

\_\_\_\_\_

Co-client

\_\_\_\_\_

Date