

RiXtrema Integration

Enhancing the advisor risk profiling conversation

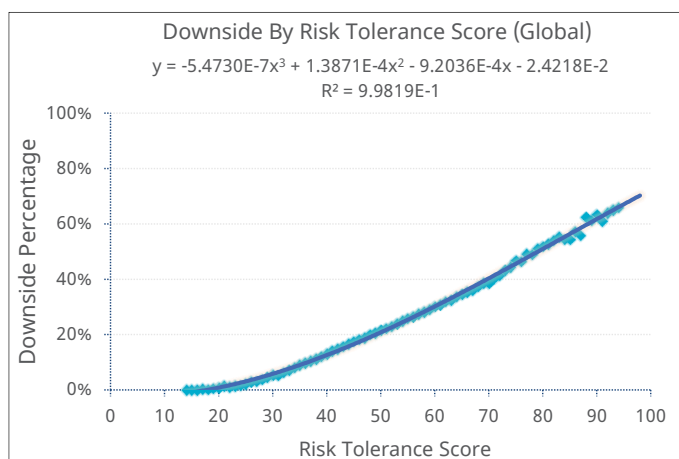
Advisors can complement their FinaMetrica risk profiling process with RiXtrema portfolio scenario testing to allow for a granular focus on clients' downside comfort, an additional aid to the risk tolerance discussion.

FinaMetrica provides a valid and accurate assessment of clients' overall financial risk tolerance on a scale of 0 to 100, where the higher the score the more risk seeking an individual is.

Using the answers to our preferred portfolio question, we are able to establish a correlation between the percentage of growth assets in a portfolio and our risk tolerance scores. This is our primary mappings methodology allowing advisors to calculate clients' growth assets comfort ranges for each risk tolerance score.

Our research shows that the growth assets and risk tolerance scores link is also consistent with answers to other investment-related questions. In relation to the answers to our downside risk question, we were able to establish a relationship between the size of the fall in the value of investments needed to cause discomfort, we call this downside comfort, and risk tolerance scores.

The graph below shows the relationship between risk tolerance scores and the average level of downside comfort. For example, a risk tolerance score of 50 on average would have a downside comfort of 21%.



RiXtrema's instantaneous stress testing system assess the riskiness of a portfolio on a scale of 0 to 100, where the higher the score the more risky the portfolio is and the larger the likely downside.

To provide a seamless advisor-client experience, RiXtrema has aligned their stress testing scale with the FinaMetrica average downside comfort. For example, a score of 50 on the RiXtrema scale indicates an average fall of 21% for the three largest losses that a portfolio incurs among all stress scenarios. This enables a like to like comparison of risk tolerance score and stress testing score.

Caution

It is important to stress that the downside comfort link is only a general guide. It is the average downside comfort for each risk tolerance score and advisors should always refer to each individual's preferred downside selection as indicated in their risk tolerance report.

Furthermore, advisors are encouraged to review all the possible scenario outcomes, especially the largest loss, with clients as the stress-testing score is only an average of the three largest losses.

ⁱ Further details can be obtained from the FinaMetrica Asset Allocation Mappings Guide available from <http://www.riskprofiling.com/resources>

ⁱⁱ Further details can be obtained from Davey, G. 2015, Getting Risk Right, Investment Management Consultants Association, March-April, 33-39, available from http://www.imca.org/sites/default/files/current-issues/IWM/IWM15MarApr_GettingRiskRight.pdf



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