DataPoints®

ADVISOR GUIDE

Investor Profile v1.0

2018

CONTENTS

About the Test

The Investor Profile assessment is a psychometrically-sound assessment of investor-related behaviors, experiences, attitudes, and preferences, designed to be used with a broad population of individuals who are making or are involved in financial and investment-related decision-making within their households. The assessment can be used in the context of a client-advisor relationship to assist in the creation of an appropriate investment portfolio, or by individuals who are creating a portfolio for themselves without the assistance of a financial advisor. The assessment provides several scores that can aid in decision-making related to investment allocation, coaching of financial and investment-related behaviors, and client relationship management.

The Investor Profile score is designed to serve as an indicator of an individual's psychological tolerance for investments that involve certain levels of risk. Likewise, the assessment includes a predictor of investor-related behavior in volatile markets, particularly in markets and corresponding investor portfolios that are experiencing a decline in value. Finally, the assessment provides factor-level scores and interpretation that provide a benchmark for maintaining or improving investor-related behaviors. The output of the assessment includes the following:

- Mapped portfolio allocations given the respondents Investor Profile Score
- Factor scores and corresponding feedback for the advisor and the client
- An overall predictor of investor action during down markets

The Investor Profile assessment is unique in that it provides the necessary overall indicator of psychological-related risk tolerance while also providing information on the psychological constructs that impact that assessment. In other words, it provides advisors, clients, and individuals information on the components of risk-related behaviors, personality, and preferences that can be used for decision-making *and* for coaching/development of more successful investment-related behaviors.

Background & Rationale

The research that underlies DataPoints' assessments is based on the concept that personal financial management is a critical household job that most individuals are required to perform. Like a traditional job, there are objective criteria by which success in the job can be measured (such as income level, monthly savings goals, net worth goals), there are tasks that must be performed (e.g., researching investments, working with household members to implement an investing strategy, making trades), and, therefore, there are clear competencies (i.e., personality, behaviors, attitudes, values) that relate to the ability and potential to perform those tasks and achieve success.

The Investor Profile assessment was designed specifically to measure psychological risk tolerance and to assess competencies critical to achieving long-term investment-related success. In other words, the test was created to assess competencies that are critical to long-term investing success. The assessment provides advisors with three different types of information (see Table 1). The first includes the Investor Profile score, an overall score that can be used as an assessment of risk tolerance to provide a recommended portfolio allocation for clients. The intent of the Investor Profile was to create a way for advisors to assess a combination of experiences, behaviors, attitudes, and personality that could impact the way in which clients make decisions about their investments. This, in turn, provides the advisor and individual client or self-directed investor information that can be used to determine the type of allocations that should be included in a portfolio. The Investor Profile score can be used along with time horizon, risk capacity, and other financial indicators to help guide portfolio allocation.

The second set of information provided by the Investor profile assessment is scores on specific components of investor-related characteristics, or factors, that have been shown to impact investment related decisions and attitudes. These factors are included on Table 1, and include Preferences, Confidence, Judgment, Composure, and Risk Personality.

Finally, the Investor Profile assessment provides two predictors of future investor behavior. The Action predictor investment-related behavior during downturns in the market.

TABLE 1. DEFINITIONS

Component	Definition	Information/Example Question
Investor Profile	The Investor Profile score is a composite score designed to assess psychological risk tolerance for the express purpose of providing guidance to the investor/financial advisor about the appropriateness of various portfolios given the score.	This score is used to map to allocation ranges based on other clients working with advisors with a similar psychological risk tolerance score. See Appendix A for more information.
Preference	This scale measures preference for risk in investments and level of risk with past financial decisions.	*In general, which of the following best describes your preference for risk?*
Confidence	This scale measures patterns of behaviors related to confidence and self-efficacy in investing-related decision-making.	*Compared to others, how confident have you been in the financial decisions you've made in the past?*
Judgment	This set of questions measures judgment and knowledge of sound investing behaviors and concepts.	*Frequent traders tend to be the most successful investors.**
Composure	This scale measures patterns of behaviors related to changes in financial markets, the value of investments, and personal financial goals.	*I tend to worry when the future feels uncertain.**
Risk Personality	This scale measures a general propensity to take risks or to try new or unknown ways of approaching decisions.	*How often have you felt comfortable taking action when all outcomes of an action were unknown?*
Action	This is an overall predictor of investment-related decision making during volatile periods in the market.	*When it comes to the stock market, a smart strategy is to buy when everyone else is selling.*

*Reverse coded.

Development

The Investor Profile assessment was developed using industry standards in psychometrics, including adherence to The Standards for Educational and Psychological Measurement[1]. For a complete description of the development of the Investor Profile, please refer to the Investor Profile Technical Report (DataPoints, 2018).

Note that the development of this assessment is focused on non-clinical characteristic related to investment management. DataPoints assessments are not clinical measures of money-related disorders, and advisors who feel their clients may exhibit certain behaviors, attitudes, or personality that could be detrimental, such as hoarding behavior, compulsive shopping, or other clinical types of behaviors should seek the counsel of a licensed professional who works specifically with those types of disorders.

Intended Audience and Application

The Investor Profile was created for different purposes. Individuals and advisers may use the assessment for assistance in constructing investment portfolios, in understanding one's patterns of behaviors and judgment related to investor related characteristics for the purpose of development, and in anticipating future behavior including action during a downturn in the market. To that end, it is important to understand which score should be used for each purpose. Table 2 provides several applications related to the use of the Investor Profile assessment.

TABLE 2. APPLICATIONS OF THE INVESTOR PROFILE

Application	Information to Consider	Notes
Portfolio allocation	Investor Profile	The Investor Profile score is a composite measure of psychological risk tolerance comprised of five individual factors that measure behaviors and experiences that can impact investor-related decision-making. This score was then mapped to allocation ranges of investors working with professional advisors who had a similar level of psychological risk tolerance. See Appendix A.
Coaching & Development	Factor Scores	The individual factor scores from the investor Profile assessment can be used to help individuals understand their patterns of behavior and improve or maintain those behaviors in order to maintain a long-term investment position.
Anticipating future Investor-Behavior	Action score	The action score can be used to anticipate investor behavior. A high score indicates that an investor may be inclined to put money into the market during a downturn in the market. Conversely, a low score indicates the likelihood that an individual investor will take money out of the market during a decline in the market.

[1] American Educational Research Association, American Psychological Association, & National Council on Measurement in Education, 2004

Implementation Steps

To effectively use any assessment in your practice, it is critical to define how it will fit with your overall prospect/client experience. DataPoints recommends the following steps be taken to implement the Investor Profile assessment into your practice.

1. **Define your purpose for using the assessment**. As mentioned above, the Investor Profile assessment can be used for different purposes. It is important to determine the purpose for using the assessment, as that decision impacts when you invite clients to take the test, how you deliver results to the client, and what actions are needed after reviewing the assessment results. Decide on how you want to use the data. If you are strictly using the information for allocation ranges, then that information can be shared with the client. Are you using it to coach? Or are you using it just to get to know a new client? If those are the purposes, then providing detailed allocation information may not be appropriate.

2. **Identify your desired outcomes**. Why are you ultimately using the assessment in your practice? Outcomes might include: efficiency in getting to know prospective or new clients, being able to anticipate potential challenges in working with the client, or identifying areas of similarities/differences in members of a household in advance. These outcomes impact how results are delivered and action steps to take after the assessment.

3. **Identify which clients will be included, and when.** For prospective and new clients, including the Investor Profile in the onboarding process is an effective way to administer the assessment. For current or longstanding clients, you may want to introduce the concept during a meeting and link it to a new service offering. Are you going to be using it with couples? You'll need to ensure that your communication helps them understand that both members of the household will be included in the assessment process.

4. **Create an action plan for reviewing results.**

    a. How to deliver the results: Determine if delivery should be face-to-face over video or over email, and when the client should receive his/her detailed report.

    b. When to deliver the results: Set aside enough time to go through the results and answer questions. If you’re using an assessment just for informational purposes, 30 to 45 minutes should be plenty of time. If you’re working with couples, then perhaps include 60 minutes to ensure that you’re covering both reports, as well as areas where there might be overlap as well as some differences. If they purpose is to ultimately set the stage for future coaching, we recommend at least 60 minutes to go through the individual results, with follow-up meetings once a quarter to check in on progress towards goals.

5. **Determine a communication plan.**

    a. Marketing/branding. Prepare clients for assessments by including information regarding your use of assessments in your marketing/branding.
    b. Before the invitation. Let the prospect or client know about your discovery process, including your use of assessments to help in the determination of appropriate portfolio allocations and/or to get to know them. Let them know they will receive a complete, personalized report that gives them insights into their scores and how their behaviors and experiences may impact their investment success in the future. Send clients the Client Overview from DataPoints to help them understand the test in more detail.
    c. After the invitation. Follow up with clients shortly after they complete the assessment to set up a time to review and discuss the results. Share the client report with them in advance of that meeting.
    d. Review Results. See the next section of this document for information on reviewing results.

Administration & Implementation

When you're creating your process for including assessments in your practice, we strongly recommend three steps to first identify how you're going to communicate the use of the assessments to your clients. These include the purpose, when they will take the assessments, and what kinds of information you'll be going through with them.

Setting the Stage

Before inviting clients to complete the Financial Perspectives assessment, it is important to let them know that it is a) part of the client workflow process and b) designed to help them better understand their behaviors as they relate to future financial success.

In terms of best practices, we recommend several. First, communicate up front that assessments are part of your practice. Surprising clients with an assessment, a process that dives into their unique characteristics and behaviors, isn't the best tactic. Instead, let them know in advance that you'll be inviting them to participate in that process. Likewise, let your clients know in advance how you'll be reviewing the results with them.

Inviting Clients

Getting to Know Your Client

Is your client sensitive? Or ready for feedback? You'll need to know both before you decide to use an assessment with your client. You may want to ask for their permission to include an assessment in the overall financial planning process. To do that, you also need to give them an overview of why you are using the assessment and allow them to ask questions about the use of the assessment.

Providing prospects or clients with clear information about the purpose of the test, who designed it, and how the information will be used is critical. It is also critical to do your own check on clients who may be reluctant to complete an assessment. Sending a reminder may be helpful, but we recommend not pushing clients who may not be comfortable with answering questions about their opinions, perspectives, or behaviors.

The Test Experience

In the assessment, the client will be asked to respond to a series of statements regarding investment management, decision-making, financial management, and other related areas. This should take your client approximately 10-15 minutes to complete the assessment. There are some statements that will seem repetitive. This is by design, and ensures that we are getting an accurate understanding of your clients' investment related behaviors and characteristics. Your clients may ask why they need to fill out the demographic information as part of the assessment. This is for ongoing data collection to ensure scoring accuracy over time.

Test Conditions & Retesting

Test takers (clients) should complete the Investor Profile on their own, preferably in a quiet location free from distractions. The test should be completed in one sitting, and each client should complete the assessment individually (versus having one household complete a single assessment).

The test is not appropriate or designed for retesting in that the biodata items associated with the test measure past and current patterns of behaviors. If significant behavioral change occurs post-testing, the individual would continue to

receive lower scores because the questions measure past behavioral patterns as well as current ones. Instead, it is recommended that advisors who wish to retest their clients use a shortened version of the assessment, due out in late 2018, which includes current measures of investor-related behaviors and judgments.

Delivering Results

Once your client completes the assessment, scores are immediately and automatically calculated with our proprietary scoring algorithm. You and your clients will receive a detailed, personalized report outlining the client's scores on the Investor Profile assessment. The report includes an overview of what the test measures and how it is scored. The Advisor report will contain information regarding the Action and Retention predictors. The report includes a table of your client's scores on each of the factors. Each factor is then described and interpreted for your client. This information can be used to develop and coach your clients using the planning feature on DataPoints' assessment platform.

After the client completes the assessment, we strongly recommend reviewing the results with him or her. Specifically, we recommend using the Advisor Report, as well as Appendices B & C, to review the results with your client.

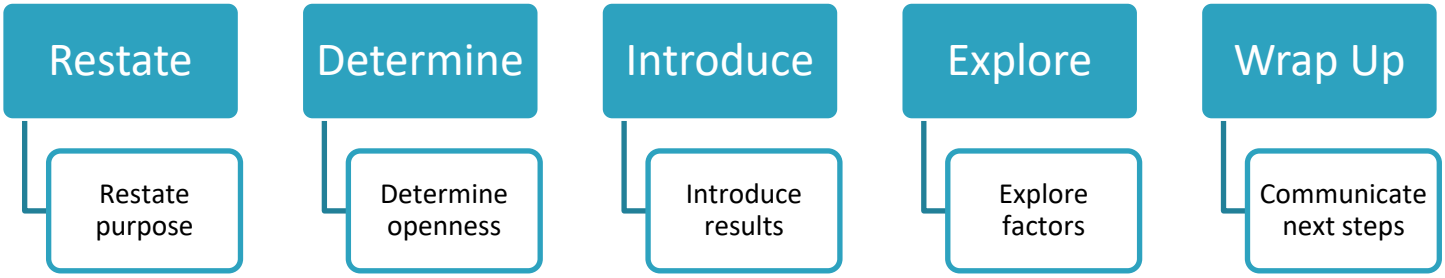

Figure 1. Delivering Assessment Results

Delivering Results

1. First restate the purpose of the assessment to help your client understand why you were giving them the assessment to begin with and what the ultimate purpose of the process is.

2. Next identify receptivity: understand if your client is receptive to understanding and going through their results. Some clients may be very open to learning more about themselves while other clients might be a bit reluctant. We don't recommend pushing the results on clients who aren't otherwise interested in learning more about themselves. That will only cause frustration on their part, and an awkward situation on yours.

3. Next, we recommend introducing the results by sending the full report to your client in advance of your meeting. Then, open the conversation by introducing the results through a series of questions (see Appendix A):

   - *What did you think about the test? What did you think about the report and your scores?*
   - *What areas did you feel where the most like you? The least like you?*
   - *How do you view your financial perspectives considering our discussion? Considering the test?*
   - *Are there any other areas you feel are important to investing and how you might make investment-related decisions, but were not included in our discussion?*

4. After introducing the assessment and the results go through each of the factors using the process that you determined at the beginning. That might include exploring each factor, or focusing only on a few extreme scores. You can also allow the client to guide the conversation. See Appendix B with information on each of the factors and a guide to understanding results.

5. Next, wrap up your review of the results by sharing next steps: Are you going to create a behavioral plan based on the results? Are you going to follow up with them over time? How will the results be used?

   Was the purpose purely information for you as the advisor? If so, a summary and recap of your discussion may be all that is needed to end the discussion.

Appendix A. Mapping to Allocation Ranges

The overall Investor Profile score was mapped to portfolio allocations by the Financial Planning Performance Lab, LLC (FPPLab) using data from over 14,000 individuals working with professional financial advisors. Individuals are provided with a portfolio (ranging from 1 to 35) and a mapped allocation of stocks and bonds. Advisors are provided with allocation ranges, average returns, standard deviations, historical maximum losses, and historical maximum gains. The mapping indicates how an individual's score on the Investor Profile maps to portfolios held by investors with a similar score. For complete information on the risk mapping used to provide portfolio allocation mappings, please see the risk mapping technical report[2], available from DataPoints.

[2] Financial Planning Performance Lab, 2018

Appendix B. Exploratory Questions

Questions for the Client

What did you think of the test? What did you think of the results?

What areas do you feel like might be impacting how you make decisions about investments, or how you've made those decisions in the past?

What areas are you trying to improve on now? What areas do you want to improve on? If none, why?

When it comes to making sound investing decisions, where do you feel you could make the biggest changes? Where do you see your strengths?

Do you think the results were an accurate reflection of how you approach investing? Why or why not?

Working with Couples

In terms of your household, how do you see the results impacting your investment decision making?

Typically, how does investing work in your household? Who makes the primary decisions? Or do you both?

Which areas are accurate? Which areas do you think were inaccurate?

Which of these areas tend to come up when you're working through investing together?

Appendix B. Investor Profile Factors

Risk Preference

When it comes to investing, your Risk Preference is a general indication of how risky you prefer your investment portfolio to be along with the risk-level of financial decisions you've made in the past. This preference doesn't take into account your financial goals or your ability to remain composed if your portfolio loses value, but instead refers to how much risk you prefer to have in your portfolio.

Clients with a Conservative Risk Preference may:

- Have little experience with risk-related investments
- Prefer certain, “sure things” versus investments with increased risk
- Desire a portfolio with very limited or no exposure to risk
- May be reluctant to explore options for adding risk to their portfolio

Clients with a High Risk Preferences may:

- Have experience with risk-related investments
- Prefer investments with higher levels of downside risk in hopes of upside returns
- Desire a portfolio with a significant exposure to financial risk
- Be open to new options for increasing opportunities for risk

Learning More: Questions to Ask

Tell me a little bit about your experiences in the past with investing.

When you think of the ideal situation for you/for your household related to risk, what does that look like?

In what ways do you think your preference for risk (or lack thereof) helps or hurts your long-term investment goals? Financial goals?

Tell me about how you’ve approached investing in the past.

Investor Confidence

With so many consequences associated with investment-related decisions, it can be challenging to know when we've taken the best course of action. Confidence refers to the level of self-confidence and self-efficacy we have in investment-related decision making.

Those low in Confidence may:

- Have little to no experience with investing and investing-related concepts
- Doubt their ability to plan, invest and manage finances
- Be unsure of their ability to manage investments
- Not view themselves as a savvy investor
- Allow others to make investment decisions for them
- Not speak up when they do not understand a topic or concept or when they do not agree on a course of action

Those high in Confidence may:

- View themselves as knowledgeable investor
- Be comfortable making their own investment related decisions
- Be assured in their own investment-related decision making
- Be overconfident in their investment-related decision making
- Have difficulty taking advice from others or collaborating on an investment plan

Questions to Ask

In what areas of investing do you view yourself as confident? In what areas do you feel not as confident?

Are there certain areas of investing in which you would like to build your confidence?

Consider any past investment decisions that you've made. How did you feel when making them? Have you changed since you've made those decisions?

Volatility Composure

The Volatility Composure factor measures your experiences and behaviors in fluid situations when conditions and values are changing rapidly, for better or worse. How do you typically handle fluctuations in your financial position, such as changes to portfolio value? Are you able to maintain consistency with your plan notwithstanding significant value declines or extreme market news? Understanding your composure can help you anticipate how you will manage volatile financial situations, such as unstable equity markets.

Those low in composure may:	Those high in composure may:
• Be anxious or worried when the market value of their portfolios decline • Be generally uncomfortable with movements in the market • Seek assurance from you, others about the ultimate outcomes of any movements in the market • Look to short-term action to help them cope with changes in the market • Require education to ensure they stick with plan	• Remain calm during times of market volatility • Have to be encouraged to take any action at times • Be reluctant to change plans • Stick with investment strategy/plan despite volatility in the market

Questions to Ask

Tell me about your experiences with investing and changes in the market. Do you view these experiences as positive or negative? Why?

When you hear the words "market decline" or "volatility," what comes to mind?

Tell me about a time you experienced a significant decline in the value of your portfolio. What was the scenario, and how did you manage it?

When you are faced with reaching a long-term goal, how do you generally manage change that could impact that goal?

What tends to cause you to panic related to investing, if anything?

What role as budgeting or spending plans played in the management of your financial plans to date?

Investor Judgment

While there can be benefits to making quick decisions in the short-term, investing (as opposed to speculation or gambling) is typically best characterized as a long-term play. Investor Judgment is a measure that helps determine whether your focus is more on short-term actions related to the market and investing, or if you are more focused on the long-term benefits and make decisions accordingly.

Those low on Investor Judgment may:

- Desire to know the latest market news and intently watch fluctuations in the markets
- Have multiple apps and methods of watching the market
- Enjoy taking investment-related actions
- Feel that they can beat the market
- Have little or limited knowledge of the stock market and/or investing

Those high on Investor Judgment may:

- View long-term outcomes of investing as more important than short term activity
- Ignore market news related to financial matters
- View short term activity or behaviors as having a negative impact on financial success
- Have experience in investing and making investment-related decisions

Questions to Ask

When you think about investing, do you typically consider short-term opportunities, or long-term outcomes?

Tell me about a good investing experience. What was it, and how did your actions or behaviors impact its outcome?

Tell me about a bad investing experience. What happened, and how did you react or manage the experience?

Tell me about a time you got caught up in the news, either in financial markets or other types of events in the world. What kept you engaged, and did that engagement impact your behavior?

Is any part of investing exciting to you? Which aspects of it, and why or why not?

What do you enjoy about investing? What parts of investing in companies or stocks or other types of areas is enjoyable?

Tell me about a time when you were really paying attention to the stock market? Why were you? How did the attention on the market impact you?

Tell me about a time you encountered a loss in the market. How did you react to that loss?

Tell me about your approach or philosophy about investing. How has that approach or way of thinking helped you? Harmed you?

Risk Personality

Do you take chances when the opportunity for success is low--or maybe even unknown? Risk Personality measures your tendencies and preferences when making decisions that involve various levels of risk. This looks at both your past behaviors as well as your experiences with risk-taking. Understanding how you generally make risk-related decisions can help you consider this propensity when making critical investment-related decisions.

Those low on risk personality may:

- Prefer options that have known outcomes
- Be less likely to make decisions that involve uncertainty
- Avoid situations or investments that have unknown or extreme amounts of risk associated with them
- Tend to be more comfortable with slower decision making

Those high on risk personality may:

- Be comfortable with decisions that involve uncertainty
- Seek out situations and experiences that involve risk-taking
- Enjoy options that have unknown outcomes
- Be comfortable making quick decisions without much information

Questions to Ask

When you think about taking risks in general, how do you view the way you make decisions? Do you tend to want all the information before making a decision, or are you comfortable taking a course of action with limited information?

When you must make a decision but don't have all the information you need to make it, what typically happens? How do you move forward?

Think about your past financial decisions. How do you typically make those decisions? What types of factors come into play?

In most cases, it takes some amount of risk to make money when investing. Tell me about a time you had a positive experience investing in something that was risky. What about a negative experience?

About DataPoints

DataPoints provides behavioral science tools to enable advisors to impact client financial success. Using more than 40 years of behavioral, consumer, and demographic data and findings that shaped the best-selling book, The Millionaire Next Door, DataPoints enables advisors to assess and change client financial behaviors.