

# investment choices

2010-2011

Standard

risk tolerance /  
focus on your  
goals and needs



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redefining / standards

## Investors have different risk tolerances based on their:

- capacity to take on risk (based on the time frame in which they may need to access their money, or “time horizon”), and
- willingness to take on risk (established by evaluating their comfort with volatility in their portfolio, or “risk aversion”)

Volatility can be nerve-wracking for many people, and they are more comfortable when they can avoid it. However, there is a definite relationship between risk and return. Investors need to recognize this risk/return trade-off.

The following risk tolerance questionnaire has been designed to measure your capacity (time horizon) and willingness (risk aversion) to take on risk for the investment goal you have in mind.

Please answer the following questions to help your advisor establish your current profile. Once it's completed, your advisor will be able to use the outcome to recommend which of the available asset allocation models is most appropriate for you.

## Answer Eight Key Questions

| Time Horizon  |  |          |       |
|---|--|----------|-------|
| Question  | Answer   | Response | Score |
| 1. When do you expect to begin withdrawing money from your investment account?  | a. Less than 1 year  | a        | 0     |
|   | b. 1 to 2 years  | b        | 1     |
|   | c. 3 to 4 years  | c        | 3     |
|   | d. 5 to 7 years  | d        | 7     |
|   | e. 8 to 10 years   | e        | 9     |
|   | f. 11 years or more  | f        | 11    |
| 2. Once you begin withdrawing money from your investment account, how long do you expect the withdrawals to last?   | a. I plan to take a lump sum distribution  | a        | 0     |
|   | b. 1 to 4 years  | b        | 2     |
|   | c. 5 to 7 years  | c        | 4     |
|   | d. 8 to 10 years   | d        | 5     |
|   | e. 11 years or more  | e        | 6     |
| Risk Aversion   |  |          |       |
| Question  | Answer   | Response | Score |
| 3. Inflation, the rise in prices over time, can erode your investment return. Long-term investors should be aware that, if portfolio returns are less than the inflation rate, their ability to purchase goods and services in the future might actually decline. However, portfolios with long-term returns that significantly exceed inflation are associated with a higher degree of risk. Which of the following portfolios is most consistent with your investment philosophy? | a. Portfolio A will most likely exceed long-term inflation by a significant margin and has a high degree of risk.          | a        | 18    |
|   | b. Portfolio B will most likely exceed long-term inflation by a moderate margin and has a moderate to high degree of risk. | b        | 12    |
|   | c. Portfolio C will most likely exceed long-term inflation by a small margin and has a moderate degree of risk.            | c        | 6     |
|   | d. Portfolio D will most likely match long-term inflation and has a low degree of risk.                                    | d        | 0     |

## Risk Aversion continued

| Question  | Answer  | Response   | Score  |           |                     |                      |   |     |      |   |     |      |   |     |      |   |     |     |  |
|---|---|--|--|-----------|---------------------|----------------------|---|-----|------|---|-----|------|---|-----|------|---|-----|-----|--|
| 4. Portfolios with the highest average returns also tend to have the highest chance of short-term losses. The table to the right provides the average dollar return of four hypothetical investments of \$100,000 and the possibility of losing money (ending value of less than \$100,000) over a one-year holding period. Please select the portfolio with which you are most comfortable.  | <b>Probabilities after One Year</b>   |  |  |           |                     |                      |   |     |      |   |     |      |   |     |      |   |     |     |  |
|   |   | <b>Possible Average Value at the End of One Year</b> | <b>Chance of Losing Money at the End of One Year</b> |           |                     |                      |   |     |      |   |     |      |   |     |      |   |     |     |  |
|   | a. Portfolio A  | \$104,000  | 24%  | a         | 0                   |                      |   |     |      |   |     |      |   |     |      |   |     |     |  |
|   | b. Portfolio B  | \$106,000  | 26%  | b         | 8                   |                      |   |     |      |   |     |      |   |     |      |   |     |     |  |
|   | c. Portfolio C  | \$108,000  | 29%  | c         | 12                  |                      |   |     |      |   |     |      |   |     |      |   |     |     |  |
|   | d. Portfolio D  | \$110,000  | 31%  | d         | 18                  |                      |   |     |      |   |     |      |   |     |      |   |     |     |  |
| 5. Investing involves a trade-off between risk and return. Historically, investors who have received high long-term average returns have experienced greater fluctuations in the value of their portfolio and more frequent short-term losses than investors in more conservative investments have. Considering the above, which statement best describes your investment goals?              | a. <b>Protect the value of my account.</b> In order to minimize the chance for loss, I am willing to accept the lower long-term returns provided by conservative investments.   | a  | 0  |           |                     |                      |   |     |      |   |     |      |   |     |      |   |     |     |  |
|   | b. <b>Keep risk to a minimum</b> while trying to achieve slightly higher returns than the returns provided by investments that are more conservative.   | b  | 5  |           |                     |                      |   |     |      |   |     |      |   |     |      |   |     |     |  |
|   | c. <b>Balance</b> moderate levels of risk with moderate levels of returns.  | c  | 10   |           |                     |                      |   |     |      |   |     |      |   |     |      |   |     |     |  |
|   | d. <b>Maximize long-term investment returns.</b> I am willing to accept large and sometimes dramatic fluctuations in the value of my investments.   | d  | 15   |           |                     |                      |   |     |      |   |     |      |   |     |      |   |     |     |  |
| 6. Historically, markets have experienced downturns, both short-term and prolonged, followed by market recoveries. Suppose you owned a well-diversified portfolio that fell by 20% (i.e., \$10,000 initial investment would now be worth \$8,000) over a short period, consistent with the overall market. Assuming you still have 10 years until you begin withdrawals, how would you react? | a. I would not change my portfolio.   | a  | 15   |           |                     |                      |   |     |      |   |     |      |   |     |      |   |     |     |  |
|   | b. I would <b>wait at least one year</b> before changing to options that are more conservative.   | b  | 10   |           |                     |                      |   |     |      |   |     |      |   |     |      |   |     |     |  |
|   | c. I would <b>wait at least three months</b> before changing to options that are more conservative.   | c  | 5  |           |                     |                      |   |     |      |   |     |      |   |     |      |   |     |     |  |
|   | d. I would <b>immediately</b> change to options that are more conservative.   | d  | 0  |           |                     |                      |   |     |      |   |     |      |   |     |      |   |     |     |  |
| 7. The graph to the right shows where the hypothetical results of four sample portfolios over a one-year holding period may potentially fall. The rectangle shows the best potential gains and worst potential losses for each portfolio. Note that the portfolio with the best potential gain also has the largest potential loss. Which of these portfolios would you prefer to hold?       | <table border="1" style="margin: 0 auto;"> <caption>Portfolios</caption> <thead> <tr> <th>Portfolio</th> <th>Best Potential Gain</th> <th>Worst Potential Loss</th> </tr> </thead> <tbody> <tr> <td>A</td> <td>43%</td> <td>-22%</td> </tr> <tr> <td>B</td> <td>34%</td> <td>-17%</td> </tr> <tr> <td>C</td> <td>22%</td> <td>-14%</td> </tr> <tr> <td>D</td> <td>15%</td> <td>-9%</td> </tr> </tbody> </table> |  |  | Portfolio | Best Potential Gain | Worst Potential Loss | A | 43% | -22% | B | 34% | -17% | C | 22% | -14% | D | 15% | -9% |  |
|   | Portfolio   | Best Potential Gain                                  | Worst Potential Loss                                 |           |                     |                      |   |     |      |   |     |      |   |     |      |   |     |     |  |
|   | A   | 43%  | -22%   |           |                     |                      |   |     |      |   |     |      |   |     |      |   |     |     |  |
|   | B   | 34%  | -17%   |           |                     |                      |   |     |      |   |     |      |   |     |      |   |     |     |  |
| C   | 22%   | -14%   |  |           |                     |                      |   |     |      |   |     |      |   |     |      |   |     |     |  |
| D   | 15%   | -9%  |  |           |                     |                      |   |     |      |   |     |      |   |     |      |   |     |     |  |
| a   | a   | 19   |  |           |                     |                      |   |     |      |   |     |      |   |     |      |   |     |     |  |
| b   | b   | 12   |  |           |                     |                      |   |     |      |   |     |      |   |     |      |   |     |     |  |
| c   | c   | 7  |  |           |                     |                      |   |     |      |   |     |      |   |     |      |   |     |     |  |
| d   | d   | 0  |  |           |                     |                      |   |     |      |   |     |      |   |     |      |   |     |     |  |
| 8. I am comfortable with investments that may frequently experience large declines in value if there is a potential for higher returns.   | a. Agree  | a  | 15   |           |                     |                      |   |     |      |   |     |      |   |     |      |   |     |     |  |
|   | b. Disagree   | b  | 8  |           |                     |                      |   |     |      |   |     |      |   |     |      |   |     |     |  |
|   | c. Strongly disagree  | c  | 0  |           |                     |                      |   |     |      |   |     |      |   |     |      |   |     |     |  |

# Calculate Your Risk Tolerance Score

## Time Horizon Score

Add the Time Horizon scores from questions 1 and 2. Your total score will determine your Time Horizon score, which is located on the horizontal axis in the scoring grid below.

**Time Horizon Score =** \_\_\_\_\_

## Risk Aversion Score

Add the Risk Aversion scores from questions 3 through 8. Your total score will determine your Risk Aversion score, which is located on the vertical axis in the grid.

**Risk Aversion Score =** \_\_\_\_\_

## Select a Risk Tolerance

To use the scoring grid, find your Time Horizon score on the horizontal axis and your Risk Aversion score on the vertical axis. The intersection of these two points is your recommended Risk Tolerance.

| Risk Aversion Score | Time Horizon Score |                   |                   |                   |                   |
|---------------------|--------------------|-------------------|-------------------|-------------------|-------------------|
|                     | 1-2                | 3-5               | 6-7               | 8-10              | 11+               |
| 0-7                 | Conservative       | Conservative      | Conservative      | Conservative      | Conservative      |
| 8-25                | Conservative       | Conservative-Plus | Conservative-Plus | Conservative-Plus | Conservative-Plus |
| 26-57               | Conservative       | Conservative-Plus | Moderate          | Moderate          | Moderate          |
| 58-83               | Conservative       | Conservative-Plus | Moderate          | Moderate-Plus     | Moderate-Plus     |
| 84-100              | Conservative       | Conservative-Plus | Moderate          | Moderate-Plus     | Aggressive        |

**Note:** If you have a Time Horizon score of zero, or are not comfortable with market-based investment risks, even the most conservative portfolio may not be an appropriate investment option. Please speak to your financial professional before selecting a Risk Tolerance.

# My Risk Profile

Check one of the following:

- Conservative**     **Conservative-Plus**     **Moderate**     **Moderate-Plus**     **Aggressive**

Check one of the following:

- I elect to base my Risk Profile upon the results of this questionnaire.
- Although the results suggest the \_\_\_\_\_ Risk Profile, for the purposes of this goal, I've elected to have the \_\_\_\_\_ Risk Profile.

Notes:

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\_\_\_\_\_  
Client Name

\_\_\_\_\_  
Client Signature

\_\_\_\_\_  
Date

The Risk Tolerance Questionnaire presented is available through a license agreement between Ibbotson Associates, Inc. and AXA Financial, Inc. Its sole purpose is to assist you in determining your general attitudes toward investment risk. This questionnaire does not consider all factors necessary in making an investment decision (e.g., personal and financial information and investment objective). In no way should this questionnaire be viewed as investment advice or establishing any kind of advisory relationship with Ibbotson Associates. Ibbotson Associates does not endorse and/or recommend any specific financial product that may be used in conjunction with the asset allocation models that are presented. Please consult with your Financial Professional and obtain the financial product's prospectus (or its equivalent) and read it carefully prior to investing. Ibbotson is a registered investment advisor and wholly owned subsidiary of Morningstar, Inc. Ibbotson is not affiliated with AXA and its family of companies.

## Risk Tolerance Definitions

**Conservative** investors seek low volatility and a steady average rate of return potentially equal to or slightly exceeding the targeted rate of return on a fixed-income portfolio by investing a small portion in stocks.

**Conservative-Plus** investors seek potential returns above the average targeted return from a fixed-income portfolio accompanied with some volatility experienced from investing a portion in stocks.

**Moderate** investors seek above average returns with increased volatility experienced from investing in a balanced portfolio of both fixed-income and stocks.

**Moderate-Plus** investors seek high potential returns with the expectation of significant volatility in any given year resulting from a portfolio with more stocks than fixed income.

**Aggressive** investors seek the greatest potential return with the possibility of extreme volatility in any given year from a portfolio invested mostly in stocks.

Not all investment products offer all risk tolerances.

## Common Market-Based Risks

Investors primarily benefit from stocks (e.g., large, mid and small capitalization and international equities) through capital appreciation resulting from increased underlying market values. Many stocks also pay periodic dividends.

Fixed-income investments (e.g., investment grade bonds) primarily provide “fixed” rates of return that are generally less risky than stocks, but not as potentially financially rewarding. Although, fixed-income investments may also appreciate in value, especially during periods of decreasing interest rates.

While all market-based investments offer the potential for significant long-term rewards, they also include risks that the general condition of the underlying markets or the issuer may change, thereby decreasing the investment’s value. For example, fixed-income investments are often subject to “interest rate risk” such that if interest rates rise, their prices generally decrease and the investment may lose value. In addition, high-yield fixed income typically has a greater “credit risk” of default than investment-grade fixed income. U.S. treasuries are considered the “safest” investment.

Stocks will also have varying levels of “capitalization risk,” as the common shares of small- or mid-capitalized companies are generally more vulnerable to adverse business or economic conditions than larger companies with more available resources.

In addition to a fluctuating “currency exchange risk,” investments in foreign securities often have a “political risk” depending upon the country’s political, social and economic conditions. As such, these risks are generally greater in less developed countries than in developed countries. It is also important to be aware of potential market “liquidity risks.” For example, during volatile market periods, especially in times of great price declines, whole or specific markets may be temporarily closed in order to restore trading equilibrium.

While there are many potential rewards, if you are not comfortable with market-based investments, please speak to your financial professional, since there may be non-market-based investments more appropriate for you.

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1290 Avenue of the Americas, New York, NY 10104, (212) 554-1234

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