

Start Smart: Developing a Strategic Investment Plan that Incorporates Relevant Risk Management



Risk tolerance should guide the design of a tailored investment strategy – one that balances the need for returns with an ability to stay confident and invested throughout market cycles. Through our partnership with Simplicity Wealth, we utilize a proprietary scoring tool based on Value at Risk (VaR) methodology. VaR helps us and our clients understand their risk threshold by assessing the potential magnitude and speed of investment loss.

A VaR Score is like a speed limit: it quantifies acceptable risk.

Just as drivers adjust their speed based on road conditions, investors have a desire to modify their strategy according to market environments. Our VaR methodology can help you understand your risk tolerance and position your portfolio so that you can weather future market conditions.

Why use VaR?

- ✓ VaR can predict outcomes with a 95% probability.
- ✓ VaR works to establish realistic risk-return expectations.
- ✓ VaR helps investors remain committed to the investment strategy regardless of the environment.

How to Start Smart

STEP

1

Complete the Risk Tolerance Questionnaire (RTQ) to gauge your sentiment towards risk.

STEP

2

Get a VaR Score to quantify your expectation of performance and downside risk.

STEP

3

Receive a custom portfolio aligned with your risk tolerance (VaR Score).

Get Your VaR Score: Completing the Risk Tolerance Questionnaire



Question 1: Enter the investable assets you would like managed by your financial advisor.

Questions 2 through 5: Honestly gauge your sentiment towards risk and investing.

Question 6: With respect to the dollar value from Question 1, over a 12-month period, what percentage of loss would make you...

AWARE

Enter the % loss in your portfolio that would make you “aware” of declines.

Example: If your portfolio is \$100,000 and you’d become “aware” at \$5,000 loss, enter 5%.

WORRIED

Enter the % loss in your portfolio that would make you “worried” of declines.

Example: If your portfolio is \$100,000 and you’d become “worried” at \$10,000 loss, enter 10%.

ALARMED

Enter the % loss in your portfolio that would make you “alarmed” of declines.

Example: If your portfolio is \$100,000 and you’d become “alarmed” at \$35,000 loss, enter 35%.

Question 7: With respect to the dollar value you entered from Question 1, enter how much money would you have to lose from this amount before needing to adjust your life-style spending.

For more information about completing your Risk Tolerance Questionnaire, please contact:



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The VaR (Value at Risk) scoring approach is Simplicity's objective measurement of a client's risk tolerance to the magnitude and speed of potential investment loss ("Client VaR Score") when selecting model portfolios with optimal asset allocations ("Model Portfolio VaR Score"). The Client VaR Score estimates potential loss with 95% confidence during normal market conditions, within a set time period, and is calculated utilizing the parametric method in value at risk and forward-looking capital market assumptions. This method assumes that outcomes are normally distributed about the mean return. The Client VaR Score attempts to mitigate the effects of financial biases and gauge your tolerance for potential loss over 3-month, 6-month, and 12-month time horizons. This analysis helps us establish and maintain the proper portfolio asset allocation so that you can remain committed to your investment plan throughout all market cycles. The Client VaR Score is assumed to be applicable to all accounts in the household unless specific accounts have been scored separately. The 3-month, 6-month, and 12-month return, and risk/reward representations are based on a household asset allocation commensurate with the Client VaR Score and uses forward-looking capital market assumptions as the basis for the probable range of potential returns.

The Model Portfolio VaR Score is calculated by measuring your portfolio's historic volatility. Historic portfolio volatility is assumed to be stable over long-term time horizons and representative of future portfolio volatility derived from forward-looking capital market assumptions. In calculating the Model Portfolio VaR score for a current portfolio, existing security holdings and weights are assumed to have been held constantly for the trailing 5 years. Performance data for the current portfolio, including mean return and standard deviation, is derived through a methodology called "backtesting" and is therefore hypothetical. In calculating the Model Portfolio VaR score for a proposed portfolio, the model manager's performance, including mean return and standard deviation, is used for the trailing 5 years. To the extent that a full 5 years of the model manager's performance is unavailable via standard institutional databases, residual performance data is generated by "backfilling" with a blended benchmark in which multiple indexes' historical performance are combined in order to reflect the investment style's desired allocations. In some cases, performance data is generated for the proposed model portfolio solely from backfilling with an appropriate blended benchmark. In calculating a household Model Portfolio VaR Score, the return history for multiple accounts is combined according to the relative percentage of total household assets to generate performance data. Both the Client VaR Score, the Model Portfolio VaR Score(s), and the household Model Portfolio VaR Score are assigned a value from 0 - 100 utilizing a cumulative normal distribution function and then indexed on a scale from Conservative to Aggressive.

