What's Current Got To Do With It?
Doing Better Than Better…

DAVID B. LOEPER, CIMA
CHAIRMAN/CEO

600 East Main Street, Richmond, VA 23219 p 804.644.4711 f 804.644.4759 www.wealthcarecapital.com

"CURRENT" VERSUS PROPOSED…

Last week I received an email from a customer who has been using us for years. He was an early adopter of our process and was the first financial advisor who used our collaboration technology to land a large client. For the past few years he has been reading our emails and whitepapers on a regular basis. Recently he participated in one of our weekly advisor conference calls. Titled "Goldilocks Planning" (for more info go to *www.financeware.com/ruminations/goldilocks.pps*), the call focused on how advisors can design wealthcare plans that are "just right" for their clients.

To paraphrase his email, he said that he really enjoyed the call, liked our new client profile (available at *www.financeware.com/ruminations/priorities.pdf*) and was looking forward to helping his clients confidently achieve their financial goals. Then, he asked: "Where do you put CURRENT on the new questionnaire?"

Initially, my response to this long-time follower was extreme disappointment. Upon greater reflection, however, I came to realize that old habits are hard to break, and when the whole world is zigging it is difficult to zag.

For many years now, advisors and investors have been analyzing and investing based on "current" versus "proposed." This practice has everyone focused on doing "better" than they currently are doing. My question to all advisors is this: Is "better" the best we can do?

If you take a step back and think about your premises, you might come to realize that doing "better" than "current" may not be the same as doing the best job you can do. In fact, while it is hard to dispute that "better" is better, you may also conclude that "better" is not necessarily "best" (or as we practice in Wealthcare, "better" is not getting things just right for your client).

CROSS CURRENT

An advisory process that is designed to do "better" than current *almost certainly* will not be the best we can do for our clients. This is because our objective with such a process is not designed to get the *best complete result* for the client, but instead it is designed to merely improve their situation enough ("better") to convince him or her that there is value in what we do (or in the case of a prospect, to convince him or her to hire us).

With the sole exception of Wealthcare advising, current financial advisory disciplines (like asset allocation, investment consulting and financial planning) are based on the idea of doing "better" than current, and in most cases will fall far short of the *best* that can be done for the client.

Think for a moment about the basic premises of asset allocation and investment consulting. Many would argue that these disciplines are designed to achieve the best asset allocation and investment management. This fact I cannot dispute. The question I pose to those making this argument is "the best asset allocation and management *for what*?" Is it the best for the client considering all of their goals, objectives and priorities, or is it simply the best asset allocation and management for the maximum risk the client can tolerate?

Achieving the best (most efficient) allocation for the client's risk tolerance is often far from the best that can be done for the client if we expand our definition of "best" beyond risk tolerance to include goals, priorities and *risk avoidance*. Think about the basic premise of asset allocation and investment consulting disciplines: to achieve the highest return for the risk one can tolerate. Does this premise (and the advising disciplines that use it) not completely ignore whether it is *necessary* to accept the risk to achieve the client's goals? If it does ignore the necessity of the risk, then aren't there investors that are accepting more risk than is required to achieve their financial goals?

While asset allocation and investment consulting may help us reduce an investor's risk for the return of their "current allocation" or improve the return for the risk of their "current allocation" (or even achieve an allocation that produces the highest return for the maximum risk he or she can tolerate), none of these improvements are necessarily the best that can be done for the client overall. They may be better than current, but they are not the best.

Wealthcare is about doing the best we can do for our clients, and therefore is based upon a different set of premises. They are to:

1. Confidently achieve a client's financial goals
2. Prevent undue compromises to their lifestyle
3. Avoid unnecessary investment risk

Asset allocation and investment consulting, as practiced under these disciplines, will not achieve the premises of Wealthcare because they are not based on the same principles. Instead these disciplines focus on:

1. Achieving higher return than the risk of a current portfolio
2. Lowering the risk and achieving the return of a current portfolio
3. Achieving the highest return for the risk a client can tolerate

While each of these is "better" than current, relative to the premises of Wealthcare they fall short of achieving the goals of it. While they may improve a client's confidence of achieving his financial goals, on average these disciplines leave the typical client with a 40% chance of failing to achieve his or her goals.[1] While these disciplines may reduce compromises (better) to a client's lifestyle, they also ask clients to make undue compromises. While they achieve the highest return for the client's tolerance for risk, they ignore whether that risk is necessary. This last point is particularly in conflict with Wealthcare.

If you think about it, the premise of asset allocation (as applied today) is really identifying a client's tolerance for risk and positioning him to experience it! Isn't risk something an investor would prefer to avoid? Does it really make sense to identify a client's risk tolerance, position his portfolio to experience that risk, and ignore portfolios with less risk or the choices about goals that may be available that would permit him to confidently achieve his most important goals with less risk? Is this the best we can do, or just "better" than "current?"

Financial planning addresses some of the pitfalls of other advisory disciplines because it focuses more on the client's lifestyle goals rather than abstract relative risk and return relationships. Like other disciplines, it falls short of achieving the best result for the client, and instead focuses on making improvements relative to the client's current situation.

Financial planning in recent years has come to include asset allocation. While it focuses on real client goals (like retirement or estate goals) better than investment consulting's index benchmarking, it is focused on convincing clients to sacrifice their lifestyle (although it isn't sold this way).

Like those advisors that practice investment consulting, financial planners usually identify a client's tolerance for risk. From there they identify when the client wants to retire, the lifestyle the client wants in retirement, the client's estate goals, and his current information. Based on the data the advisor gathers he works on making things better. Asset allocation is "improved" under the same premises as investment consultants. Additional savings needed to achieve goals are calculated based on return assumptions of the "better" asset allocation. For many clients other goals will be compromised to comply with generally accepted norms or to simply make the plan "better."

[1]Based on a study of over 10,000 investors applying Financeware's probability analysis tool.

What makes one financial plan better than another? Usually it is the plan that asks the client to make the greatest sacrifices. Many planners view their job as convincing their client to save more, work longer, spend less, and accept more risk. In other words, advisors try to get their clients to sacrifice their lifestyles. In fact, the foundation of financial planning has been "gap" or "shortfall" analysis, which focuses on calculating how much more the client should be saving. If this is our solution, how can we help clients that prioritize their current lifestyle over a retirement income they may receive in the future?

Ideal financial plans, as currently practiced, may confidently achieve an investor's goals, but they do so at the price of undue compromises to his or her lifestyle and often with unnecessary investment risk.

Financial planning, asset allocation and investment consulting may be "better" than "current." Their premises, though, will rarely if ever achieve the best that can be done for the client. To do the best, advisors need a discipline that puts "current" in its proper place. Current is meaningless unless you are trying to just do better. To do the best you need to:

1. Confidently achieve clients' goals
2. Prevent undue compromise to their lifestyle
3. Avoid unnecessary investment risk

Wealthcare, when combined with Goldilocks planning, will get the client's financial future just right. That is the best that can be done and is "better" than "better." While we are used to comparing our advice to the client's current situation this practice distracts us from doing the best that can be done.

In Part Two of this white paper, we will look at a case study and demonstrate how much better the best advice can be. Finally, we will explore how Goldilocks planning can get things "just right" for the client, even if we ignore "current."