香港退休計劃協會
The Hong Kong Retirement Schemes Association
PREMIER SPONSOR ARTICLE SERIES
Aug 2020

Goal-based Wealth Management – the Future of Advice

FRANKLIN TEMPLETON

In traditional financial planning, advisors will seek to understand what an investor's goals are, then they ask questions designed to determine the investor's risk tolerance level. It is more to that. Goal-based wealth management seeks to incorporate viewing risks from the investors' goals-based perspective, as well as the traditional standard deviation perspective.

Franklin Templeton's qualitative research and discussions with advisors show that while many say they provide goals-based planning and indeed have goals-based discussions with their clients, the underlying investment solutions that they offer tend to be risk-based, with little tangible connection to associated goals.

In this paper, we want to share the concept of goals-based wealth management and how it ties with retirement planning and investing.

Background

The expected improved outcomes of goals-based wealth management require a shift in the entire value chain of wealth management, technology infrastructure and asset management solutions. A trend that we are seeing in the industry right now.

Goal-based Planning vs Goal-based Investing

Instead of selecting a standardized portfolio and managing it through rebalancing, a goal-based approach portfolio that will move about on the efficient frontier, dynamically addressing changes to the market in order to optimize the goals.

The Missing Connection

One of the most important tasks for a financial advisor is to listen to their clients and help them achieve their investment goals such as investing for retirement. However, while financial advisors understand the importance their clients place on saving and investing towards a goal, our research with iQity Research & Insights[1] revealed financial advisors lack the tools or framework to translate their client's needs and wants into portfolio strategies that will provide them with the best chance of success. In other words, they may start with detailed questions to identify and articulate client goals but then recommend a finite number of standard asset allocation models. **Often, the client is placed in a portfolio or allocation that aligns with their risk tolerance and goal horizon but that does not account for the importance of the goal or the likelihood that they will achieve it. Portfolios intended to be personalized are instead grouped and, are often rebalanced periodically to the target asset allocation regardless of market conditions.**

In addition, underfunded goals are often ignored, and critical goals may be over-funded.[2] When it comes to evaluating the success of the portfolio or strategy, advisors typically use standard financial industry performance indicators such as excess returns, alpha, tracking error etc. vis a vis a benchmark, rather than probability of attaining a goal.

Personalized Investment Planning Model

Franklin Templeton has developed a proprietary algorithm that can deliver personalized managed advice for retirement plan participants in the US. The new program disrupts the existing paradigm of embedded advice in a target date fund for instance, which defines risk in terms of volatility and is built on assumptions for an age-based cohort of people, even though the participants are individuals with a wide range of goals and financial circumstances.

Our research shows that personalized portfolios, regularly reallocated to maintain a high probability of achieving the desired outcome, have a statistically significant higher likelihood of actually reaching the goal compared to portfolios that are managed with traditional target-risk rebalancing.

With this model, participant portfolios will be:

	Personalized A unique initial investment path is created based on starting wealth, target wealth, loss threshold, investment tenure and capital market expectations.
	Dynamic Investment paths are adjusted on a regular basis based on portfolio performance and future capital market expectations. Paths can further adapt to withdrawals, infusions and goal changes.
	Probability-Driven Factors in probability of success and let that drive the risk and asset allocation decisions of the initial investment path and each subsequent adjustment. Probability of success is the determinant, not a variable.

Sample Personalized Investment Path[3]

Bob

GOAL

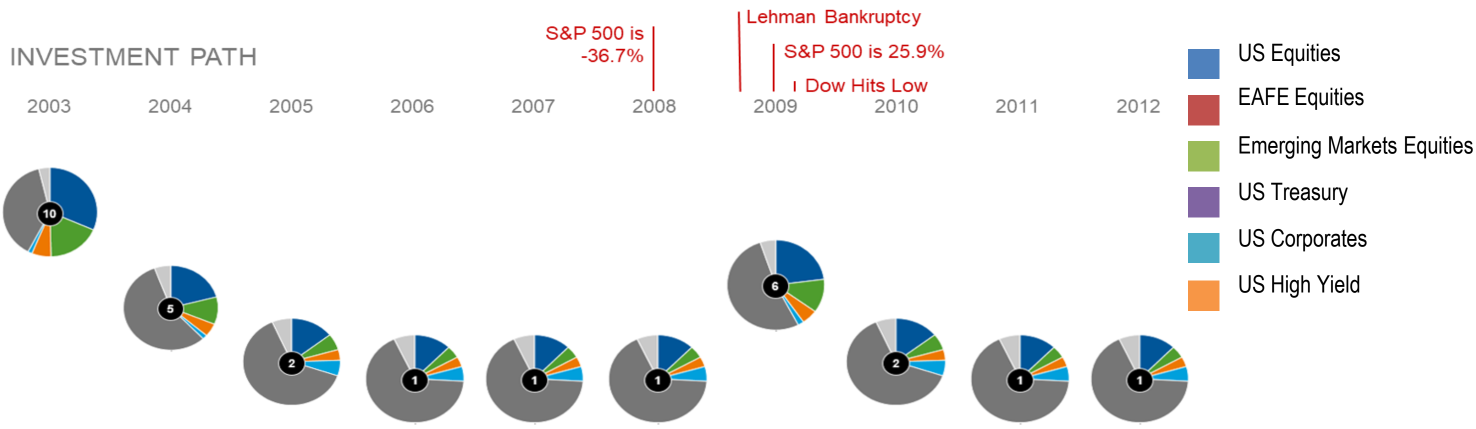
WISH
To be met in 10 years with 65 – 75% probability

GOAL TYPE	Moderate
GOAL TENURE	10 Years
STARTING WEALTH	$100K
TARGET WEALTH	$185K
FLOOR	$75K
INVESTOR TYPE	Moderate

# PORTFOLIOS USED	5
# PORTFOLIO SHIFTS	6
MAX. PROBABILITY	76%

FINAL WEALTH $199.7K

INVESTMENT PATH



Source: Franklin Templeton

It is a unique example of goal-based investing. It can be applied not only to retirement planning but wealth management in general. In retirement planning, investors are commonly looking for a portfolio that provides income, generates growth, protects assets from market events. That's where goals-based planning comes into play. The combination of personalization and technology nowadays, plays an important role of helping investors to achieve investment goals in various stages of life.

Reference:

A New Approach to Goals-Based Wealth Management" by Sanjiv R. Das, Daniel Ostrov, Anand Radhakrishman, Deep Srivastav, 22 March 2018.

1. Franklin Templeton partnered with aQity Research & Insights, Inc. to conduct qualitative research from September – December 2017. Independent qualitative research was also conducted over the same period.

2. S.R. Das, D. Ostrov, A. Radhakrishnan, D. Srivastav (2018). A New Approach to Goals-Based Wealth Management, Journal of Investment Management 16(3), 1–27.

3. The figures in US$ are hypothetical and intended for illustration purposes only and does not reflect performance of any fund of Franklin Templeton Investments. The figures shown above may not necessarily reflect the actual circumstance and no reliance, therefore, should be placed upon them. US Equities are represented by MSCI US Total Return Index; US Small Cap Equities are represented by Russell 2000 Total Return Index; EAFE Equities are represented by MSCI EAFE Total Return Index; EM Equities are represented by MSCI Emerging Markets Standard Total Return Index; RETIS are represented by S&P United REIT Index; US Treasury is represented by Bloomberg Barclays US Treasury Total Return Unhedged USD Index; US Corporates is represented by Bloomberg Barclays US Corporate Total Return Unhedged USD Index; US High Yield is represented by Bloomberg Barclays US Corporate High Yield Total Return Unhedged USD Index.

About HKRSA

The Hong Kong Retirement Schemes Association (HKRSA) was established in 1996 to promote the interests and best practices of retirement schemes in Hong Kong including provident and pooled retirement funds. The HKRSA is a not-for-profit, non-political association, which represents retirement schemes and their members, providing a forum for discussion of issues of current and topical interest.

About Franklin Templeton

Franklin Resources, Inc. [NYSE:BEN] is a global investment management organization with subsidiaries operating as Franklin Templeton. Through its specialist investment managers, the Company brings extensive capabilities in equity, fixed income, alternatives and custom multi-asset solutions. The Company has more than 70 years of investment experience and approximately $1.4 trillion in AUM as of June 30, 2020.