WM02

# GOALS-BASED WEALTH MANAGEMENT

## Key Takeaways

A comprehensive and integrated approach to family wealth management:

- Define investment objectives in process.
- Set investor profiles and investment objectives.
- Agree on likely forward macroeconomic scenarios, short / long-term.
- Identify the most dangerous risks and most attractive opportunities.
- Define asset allocation by, and the strategy within, each asset category.
- Perform necessary due diligence on potential for post costs return vs objectives and review findings in shortlisted investment options.
- Make tactical investment decisions around the policy target with appropriate discipline, implementation, and structure.
- Monitor and adjust investments as appropriate.
- Insure comprehensive and timely reporting, portfolio efficiency, exposure, and risk analysis, linking results with strategy and actions.

## Questions to Consider:

- How will you invest your family's wealth to make the most of it?
- What steps will you take to ensure investments are as effective as possible?

## INTRODUCTION

The Family itself is always at the heart of family wealth management and following the financial crisis, it was learned that the more practical and human approach to investing may be more suitable for an investing family than a pure portfolio theory-based approach.

This family-centric orientation is called the Goals-Based Wealth Management (GBWM) approach and assumes that the true definition of risk is the potential inability of a family to achieve its goals.

The key question facing each investment family is which mix of assets is most likely to achieve the family's Financial objectives for capital protection and growth, income generation, portfolio efficiency and investment and effectiveness. By complimenting the GBWM approach, the result is defined pools of capital each serving a specific purpose with separate objectives, which are managed in a coordinated manner to achieve the family's overall investment objectives.

## Guidance

This module will focus on family wealth management, which is specific to the funds not in the family business. A large part of family wealth management is the practice of investing the liquid wealth of the family to achieve different objectives and dividing the wealth into investment pools that can serve many different purposes. Properly managed wealth can be used for many types of goals and can be more or less sensitive to outside factors. When properly managed, different objectives, risk profiles, and investing activities and styles can be managed under one portfolio.

Successful family wealth management often boils down to a few factors:

- A disciplined and professional investment process.
    - Documenting your asset allocation,
    - looking at things professionally, understand why you're making the investment, what your buying tactics are, what your selling tactics are, your reason, and your ability to track performance over time.
- Understand your investor profile and objectives.
    - Are you sensitive to liquidity?
    - Are you long-term or short-term?
    - High risk or low risk?
    - What's your profile and how do you want to manage that?
    - What are your objectives?
    - One of the important aspects of thinking about asset allocation in managing money is achieving your goals. To achieve these goals, it is important to have a profound understanding of them. Make sure that your goals-based wealth management portfolio fulfills your needs. Success is often defined as whether or not you achieve your goals.

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## Questions to Consider:

- How will you invest your family's wealth to make the most of it?
- What steps will you take to ensure investments are as effective as possible?

- Strategic asset allocation.
    - How are you going to be allocating funds between traditional asset classes, stocks, bonds, property, alternative assets, private equity, derivatives, commodities, precious metals, etc.
    - Decide the breakdown between traditional and alternative assets.
    - Understand your objectives within each asset class.
    - Put together a long-term strategy and annual policy statement.

It's important to outline exactly *how and why* you want to invest and then make sure it's done effectively and efficiently by choosing the best managers. An effective way to find good managers is to find a top decile manager when the markets are down.

A successful approach to family investing includes:

- Find the right managers.
- Get the right cost for your Investments.
- Get the right controls on your Investments.
- Get the timing right for buying and selling.

It's important to develop an investment style that fits your capabilities and your understandings through a process you control. The style has to be disciplined, professional, and objective. It is also important to avoid the traditional private investor pitfalls, such as:

- Familiarity bias.
- Doubling down on bad Investments.
- Recency bias.

Be systematic in how you invest, decide which sectors you want to invest in, how you want to invest in them, when you want to invest in them, with whom you're going to invest, and pursuing goals objectively. Being a professional investor will allow you to protect your wealth and allow it to grow over long periods of time. Wealth can be used to make the family's life better, and other lives better, but can be lost if not carefully managed.