

Goals Based Investing

How can you overcome irrational client behavior?
Goals based investing changes the conversation.

SEI New ways.
New answers.®

John D. Anderson
Practice Management Solutions
SEI Advisor Network
610.676.2174 | janderson@seic.com
Twitter @SEIJohnA

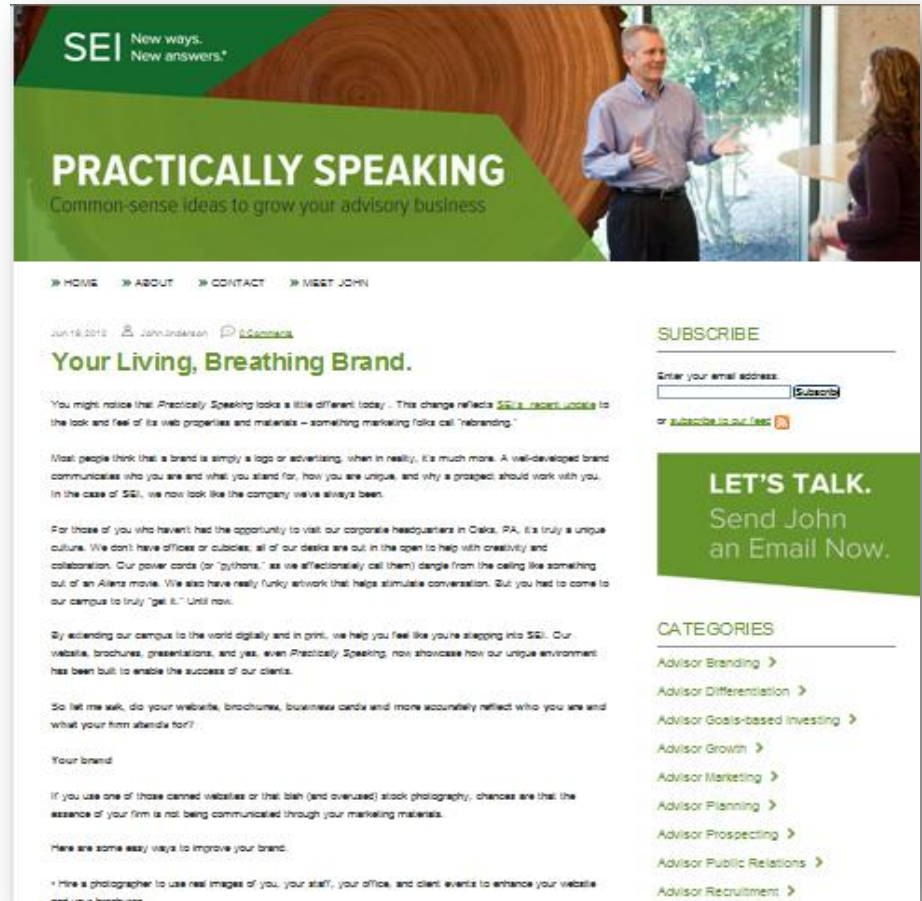
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Research › PWC Survey

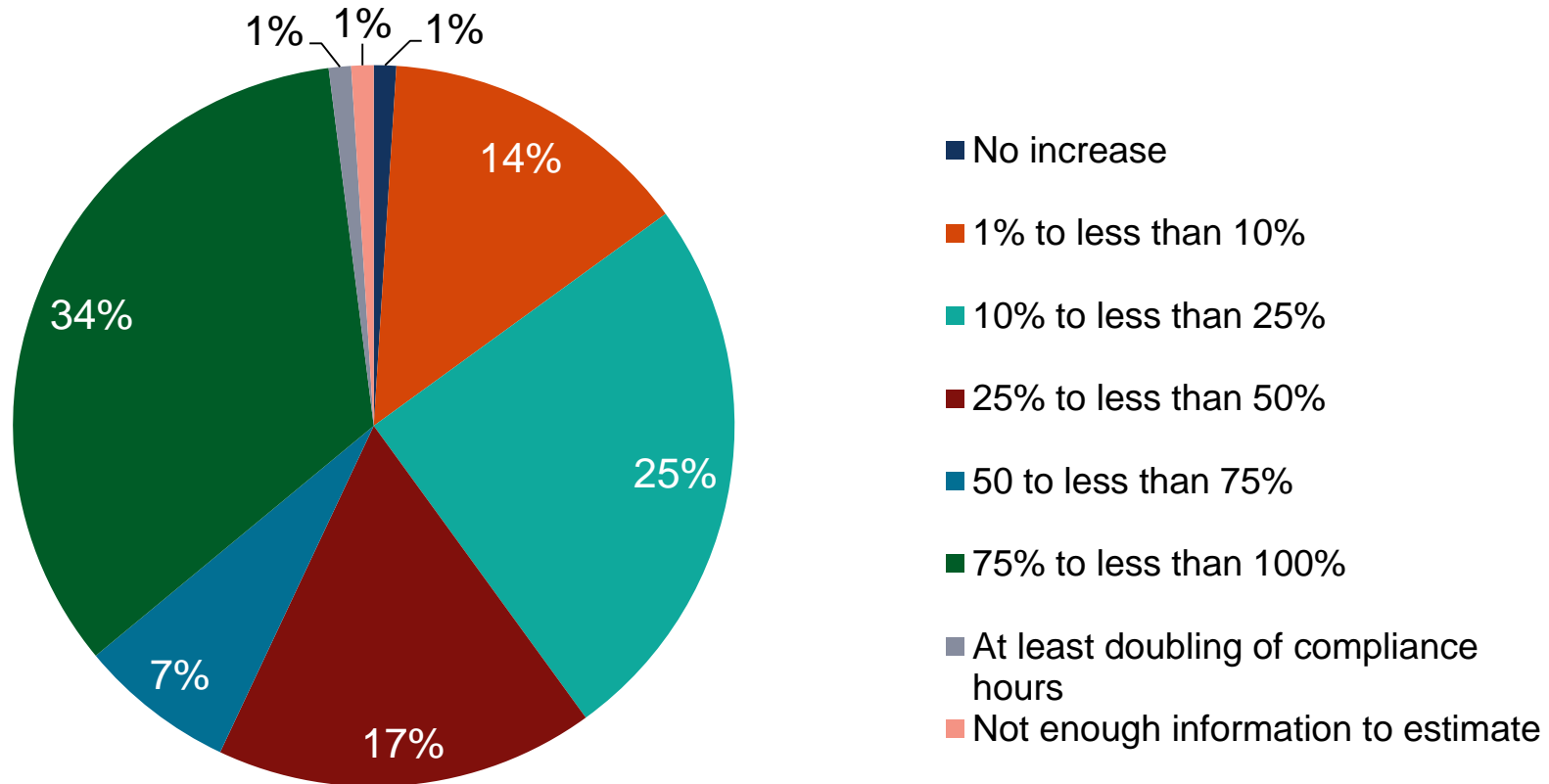
Serving clients and creating value

- Pervasive regulatory pressures are driving culture changes
- Quest for operational efficiency and differentiation through technology continues
- Traditional approaches to product and service provision are changing
- Understanding the client's perspective of value is only getting tougher

Source: PriceWaterhouse Coopers, Global Private Banking and Wealth Management Survey, June 2013, N=200 organizations throughout 51 countries including universal and global banks, regional players, to local and niche players in both emerging and established markets.

Research › Pervasive Regulations Getting Worse?

Increase in time spent on compliance related activities should new "harmonization" requirements be adopted

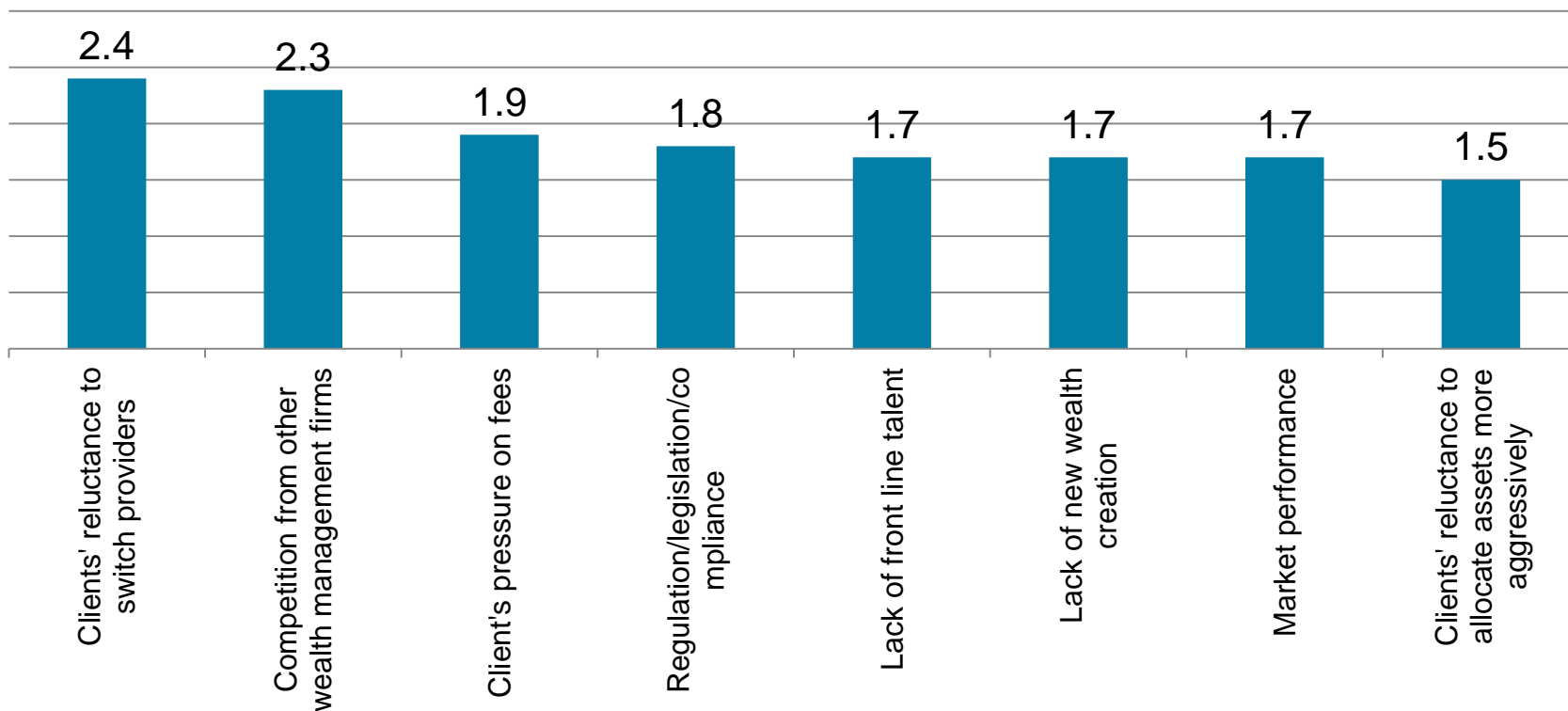


Source: Charles Schwab: Advisor Survey on Potential Costs of SEC Rules Harmonization July 2013 N= 834

Research › Shared Challenges

External Challenges to Growth Ranked 1 to 3

1 equals "small issue" and 3 equals "big issue"



Source: CEB, CEB Wealth Management Leadership Council, CEB, CEB Ultra High Net Worth Executive Circle Survey, Fall 2012.

Research › Differentiation Though Technology

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It's time to gear up for 2014

Are you ready?

No, I'm good (FREE*) Or **Yes, let's go** (ALSO FREE*)

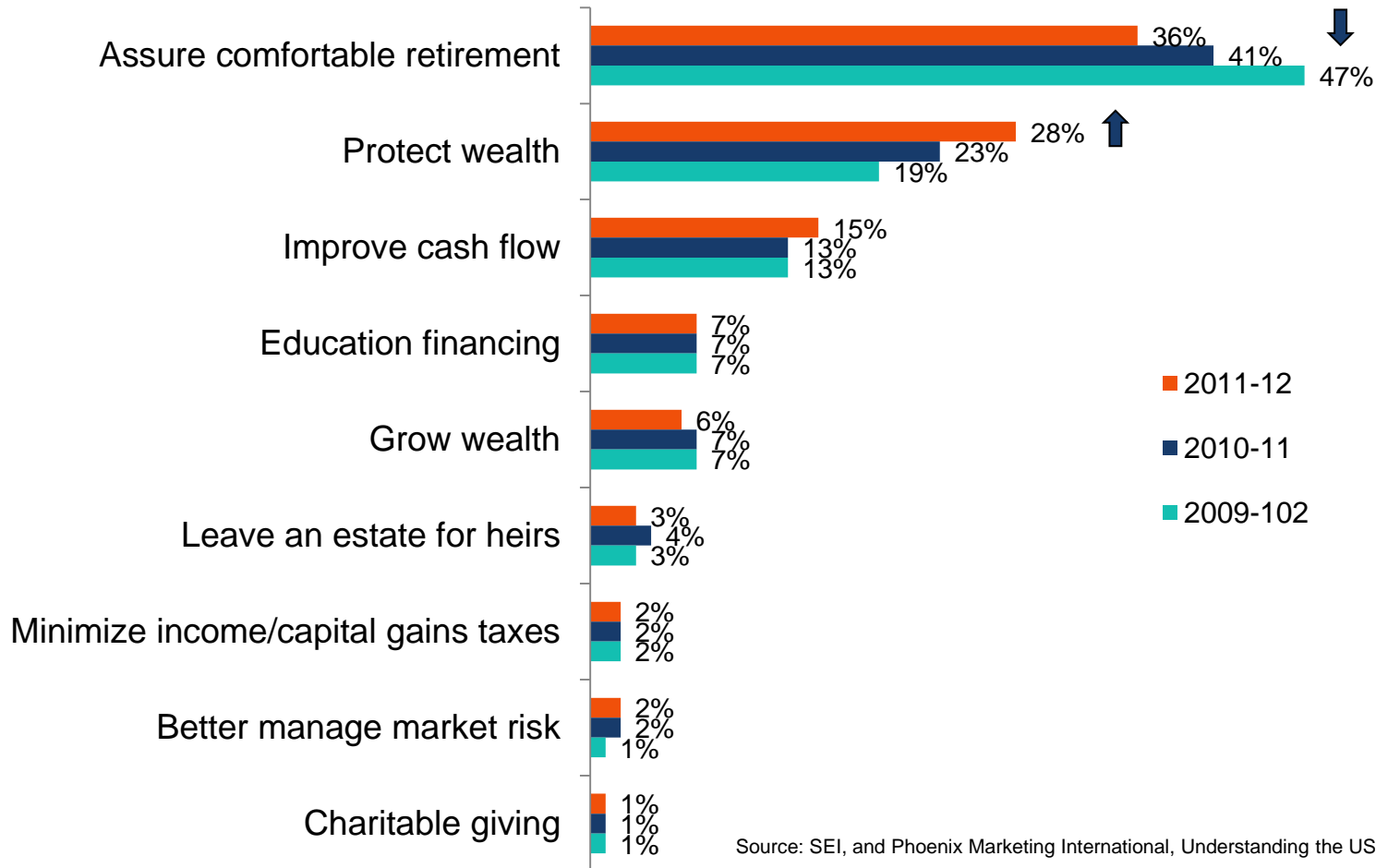
Are you sure? I'm Ready

*Unless you count interest from expensive debt; unrealized investment returns; loss of sleep, time and energy. *No fine print

Need help?

Research ▶ Financial Attitudes, Affluent Market

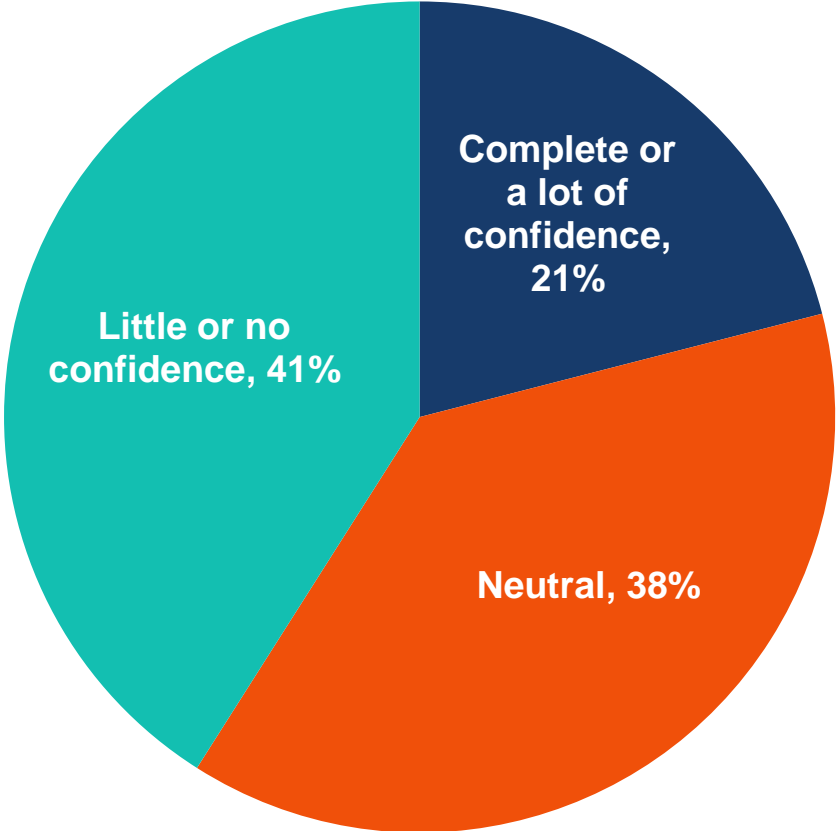
Single Most Important Financial Goal Total Affluent Market - 3 Year Trend



Source: SEI, and Phoenix Marketing International, Understanding the US Affluent Investor, Fall 2012

Research › Mixed News for Investor Confidence in Advisor

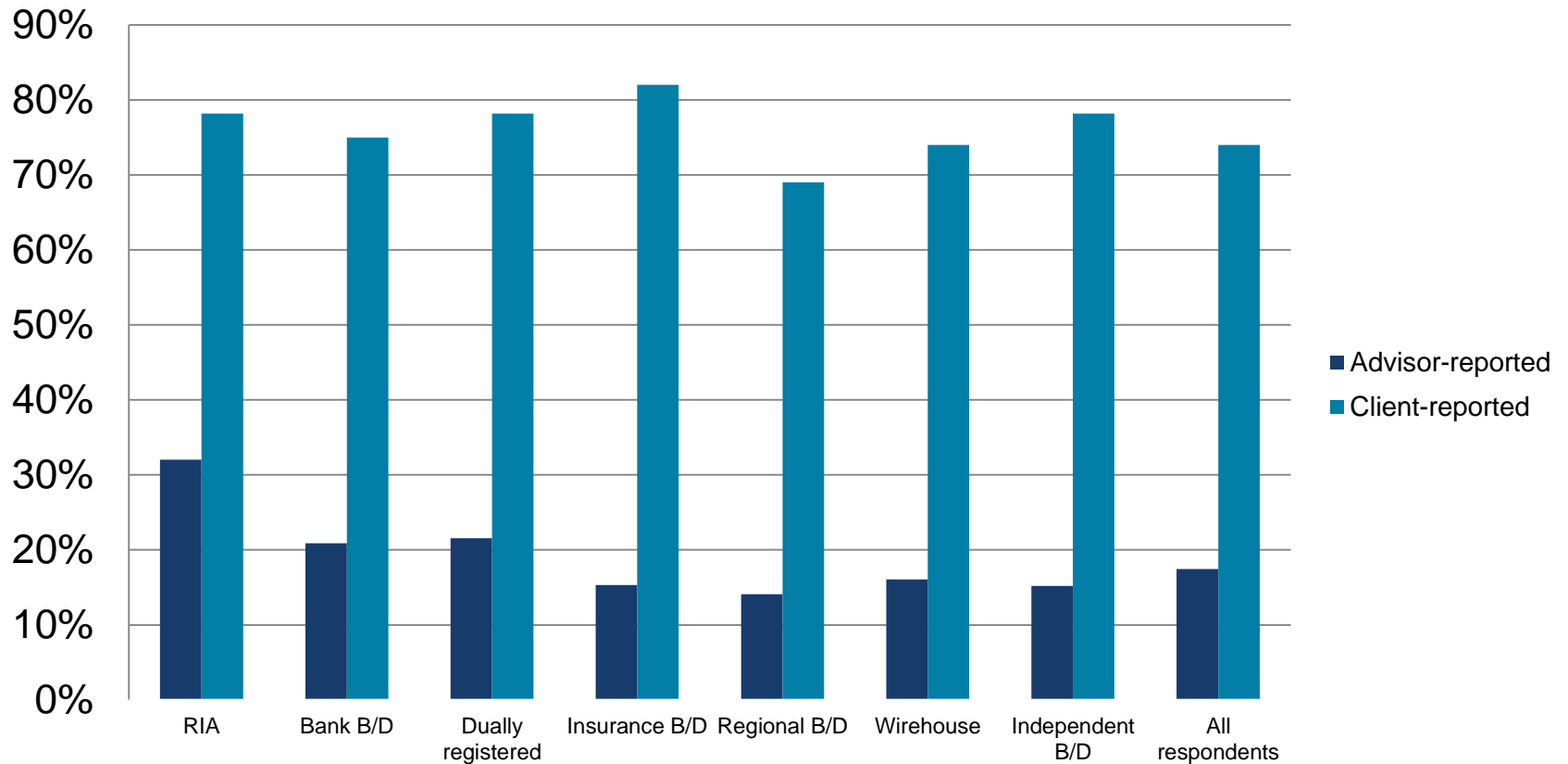
HNW Clients' Confidence in Financial Providers



Source: VIP Forum, Windows on the Future: Key Wealth Management Trends in 2012, April 2012

Research ▶ Clients Going It Alone?

Advisor vs. Client-reported discount brokerage account ownership, 2012



Sources: Phoenix Marketing International, Cerulli Associates, in partnerships with the College for Financial Planning, the Financial Planning Association, the Investment Management Consultants Association, Morningstar, and Advisor Perspectives

Research ›

Long-term Underperformance of Individual Investors

Annualized Investor Returns vs. Benchmark (12/31/2012)

	Average Equity Investor	S&P 500	Difference	Average Fixed Income Investor	Barclay's Aggregate Bond	Difference
20 year	4.25%	8.21%	-3.96%	0.98%	6.34%	-5.36%
10 year	6.05%	7.10%	-1.05%	1.17%	5.18%	-4.01%
5 year	-0.84%	1.66%	2.5%	1.64%	5.95%	-4.31%
3 year	7.63%	10.87%	-3.24%	2.85%	6.19%	-3.34%
12 month	15.56%	15.98%	-0.42%	4.68%	4.21%	0.47%

Source: Qualitative Analysis of Investor Behavior, Dalbar, 2013

Average U.S. equity investor, average U.S. fixed income investor, and average U.S. asset allocation investor results are calculated using data supplied by the Investment Company Institute. Investor returns are represented by the change in total mutual fund assets after excluding sales, redemption, and exchanges. This method of calculation captures realized and unrealized capital gains, dividends, interest, trading costs, sales charges, fees, expenses and any other costs.

Research › How Do You Differentiate?

- Psychological factors, such as emotional investment decisions caused by intermittent market volatility, are the **single largest cause (45%–55%)** of ‘investor underperformance’ among equity and fixed-income investors.
- Investors’ ability to correctly time the market is highly dependent on the direction of the market. Investors generally guess right more often in up markets. However, in 2012 **investors guessed right only 42% of the time during a bull market.**
- Analysis of investor fund flows compared to market performance further supports the argument that **investors are unsuccessful at timing the market.** Market upswings rarely coincide with mutual fund inflows while market downturns do not coincide with mutual fund outflows.

Clients need your help, your service and your advice.
How do you set yourself and your business apart?

Source: “Quantitative Analysis of Investor Behavior, 2013” , DALBAR, Inc

How Do You Differentiate?

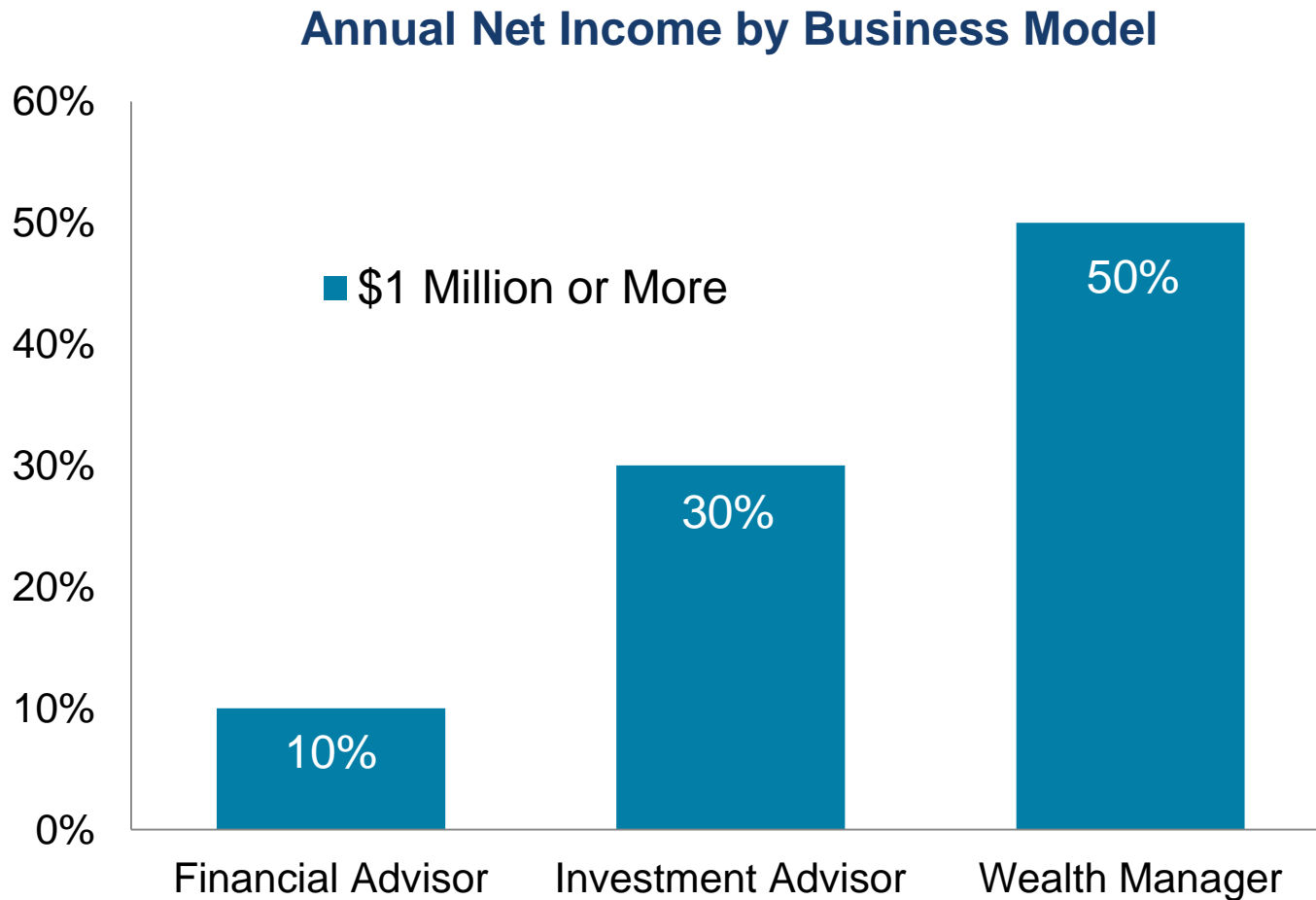
Not Differentiated

- Being an Investment Manager
- Beating a benchmark
- Discussing standard deviation, alpha, and beta
- Discussing risk and volatility to a benchmark
- Offering the newest or hottest products and services
- Conducting annual investment reviews

Differentiated

- Being a Wealth Manager
- Helping a client attain his goals
- Discussing risk relative to achieving her goals
- Offering products and services that are in line with goal attainment
- Delivering a unique and compelling client service experience

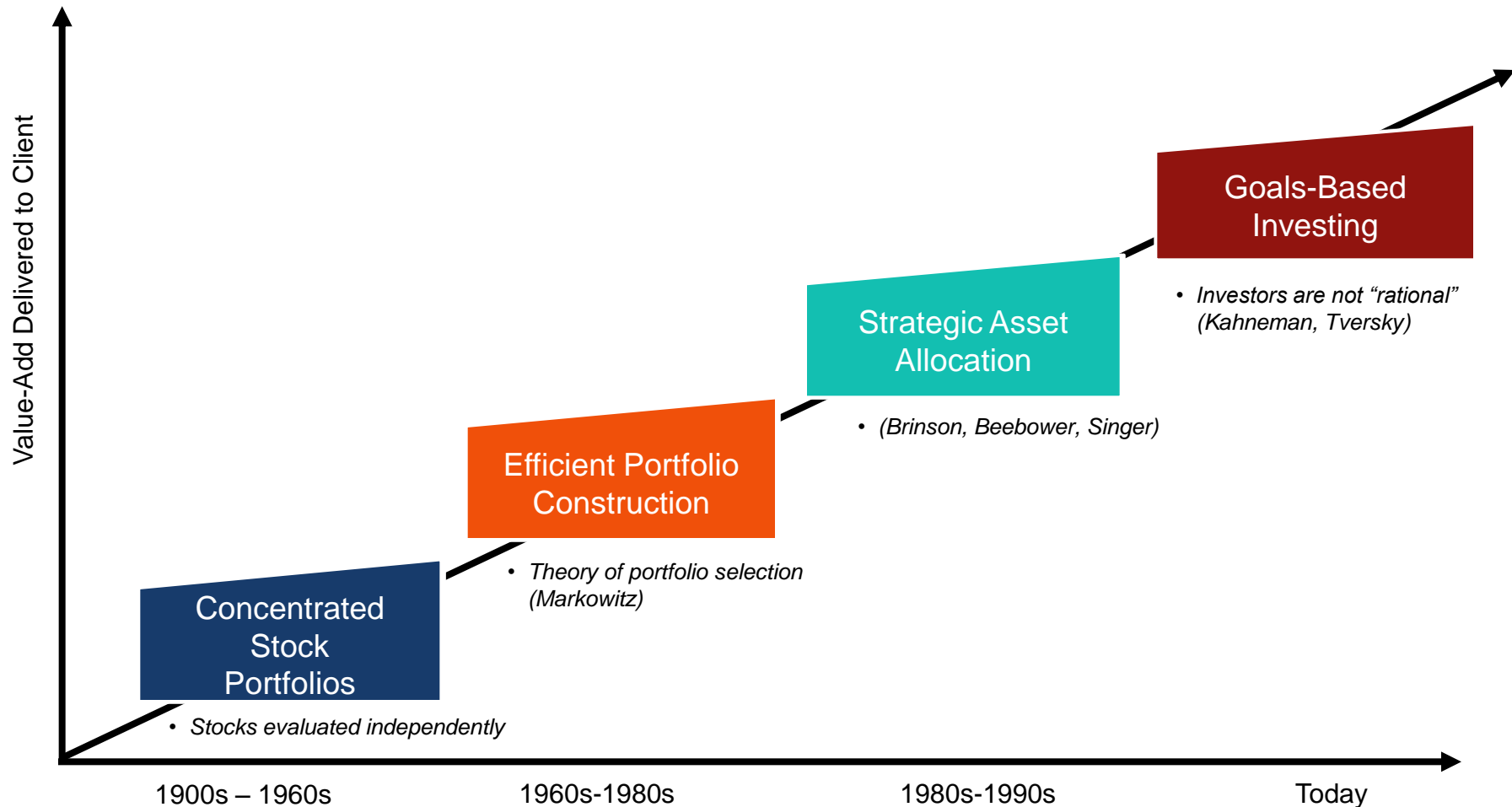
Wealth Managers › Increased Net Income



Source: CEG Worldwide, Best Practices of Elite Advisors, 2012

Investment Approach ›

The Evolution of Portfolio Management Theory



Investment Theory › Traditional vs. Individual Perspective

Traditional Theory

- All investors have roughly the same objectives
- Portfolios should manage expected return vs. standard deviation
- Risk tolerance can be summarized with a single estimate or “score”
- Investors are rational



Investor Perspective

- Investors have multiple goals with varying objectives
- Trade-offs should be based on goal achievement
- Investors have different attitudes about risk for each goal
- Investors have behavioral biases and make emotional decisions

Why Goals-Based Investing ›

Now More Important Than Ever

- A positive and constructive conversation.
- Changes the dynamics of the relationship
- Changes the behavior of clients – maintaining perspective and discipline during market volatility
- Creates a rational framework for expectations and measures of success
- Creates a foundation for client relationships – building client confidence in strategies which are aligned with personal goals
- Creates true differentiation of your services

Goals-Based Investing › Assessment of the Right Strategies

Those implementing a goals-based investment approach typically fall short in two distinct areas when selecting the right strategies:

1

Failure to match multiple client goals to multiple investment strategies

2

Failure to construct portfolios that match the risk and return needs of each specific goal

Goals-based Investment Approach › Assessment of the Right Strategies



Goals-Based Investing ›

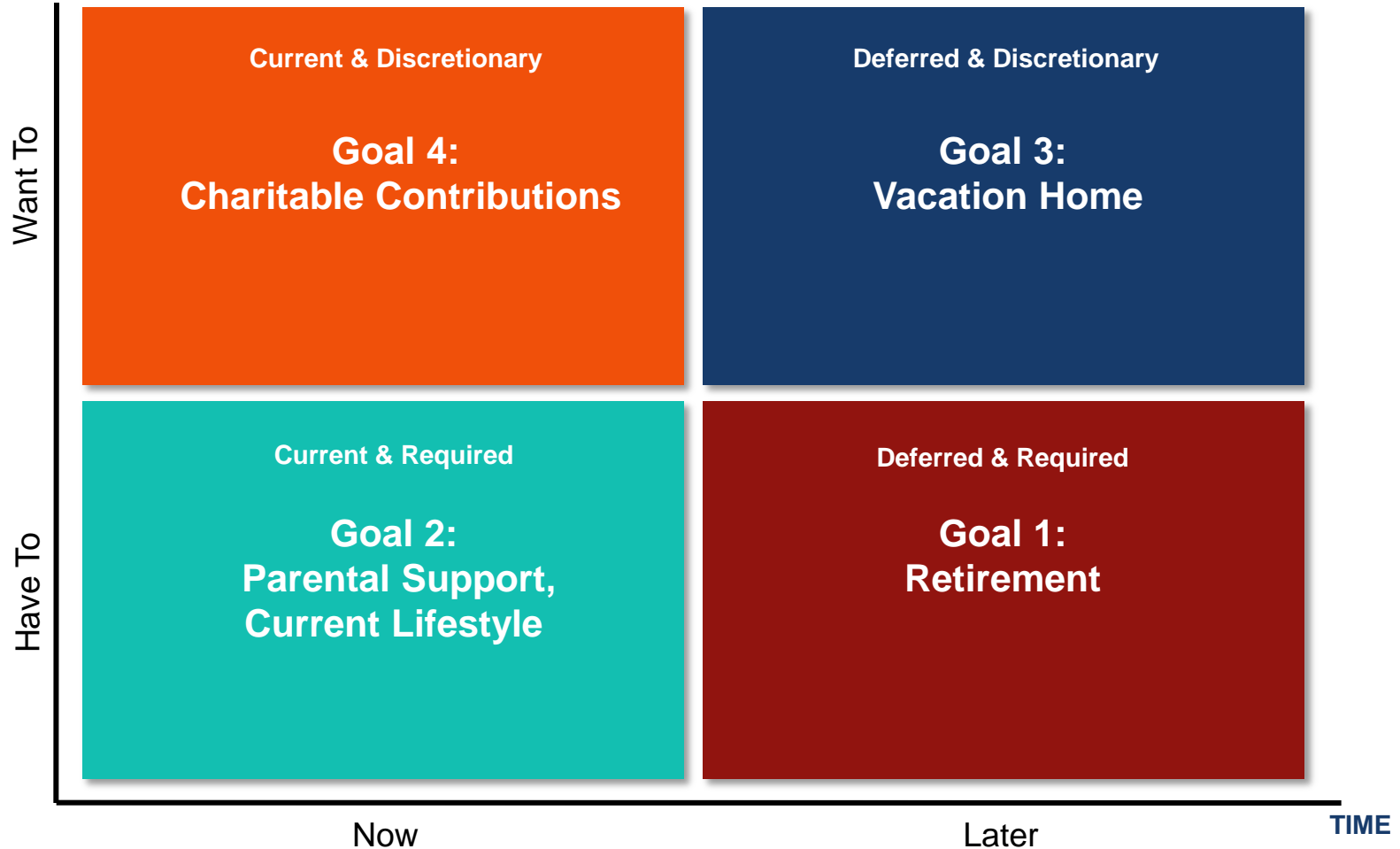
Incorporation into the Client Process



Goals-Based Investing › Discovering Client Goals

Establishing a time horizon and priority for goals

PRIORITY



Goals-Based Investing › Discovering Client Goals

Client Profiling Kit

- Personal and Family Information
- Income, Expense and Investment Information
- Goal Identification Worksheet
- Risk Tolerance Questionnaire
- Additional Information



This Client Profiling Kit is intended for use with individual, corporate and trust assets for both taxable and tax-deferred accounts, including IRAs.

INCOME INFORMATION:

Approximate Annual Household Income (All Sources)		Investable Net Worth	
Gross Annual Salary	Until Year	Subsequent Years	Salary Growth Rate
Additional Non-Investment Income (e.g. rental income, pension, etc.)		Annual Social Security Benefits	Starting at Age
Projected Total Income Through Retirement (Includes pension, Social Security and other sources)		Years of Investment Experience	

EXPENSE INFORMATION:

Project Annual Expenses (Excluding taxes)	Until Year	Subsequent Years
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INVESTMENT INFORMATION:


Investment Type	Non-Taxable / Tax Deferred Accounts (401k, IRA, Variable Annuities)	Taxable Accounts	Investment Income \$
Savings Accounts, Money Market, and CDs			
Taxable Bonds / Bond Funds			
Municipal Bonds / Municipal Bond Funds			
US Stocks / Stock Mutual Funds			
International Stocks / Stock Mutual Funds			
Options or Futures			
Gold or Precious Metals			
Investment Real Estate			
Insurance (Type?)			
Other			
Total			

1. Are there any limitations to holding specific asset classes in this investment portfolio (i.e., no international investments, no emerging markets investments)? No Yes (please explain) _____
2. Are there any legal, social, tax or specific constraints that may be relevant to the management of this investment portfolio (i.e., alcohol, tobacco, XYZ corp., etc.)? No Yes (please explain) _____
3. Considering your tax bracket, do you prefer to use tax-exempt fixed income investments as they may provide a higher after-tax return than equivalent taxable investments? No Yes (please explain) _____

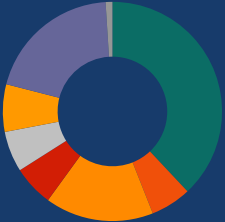
Goals-Based Investing › Discovering Client Goals

Establishing a time horizon and priority for goals

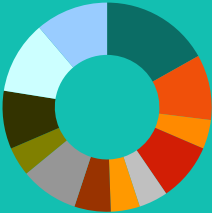
RISK



Goal: Vacation or 2nd home
Strategy: Moderate



Goal: Endowment
Strategy: Aggressive



Goal: Current Income
Strategy: Short Term



Goal: Education or Retirement
Strategy: Moderate

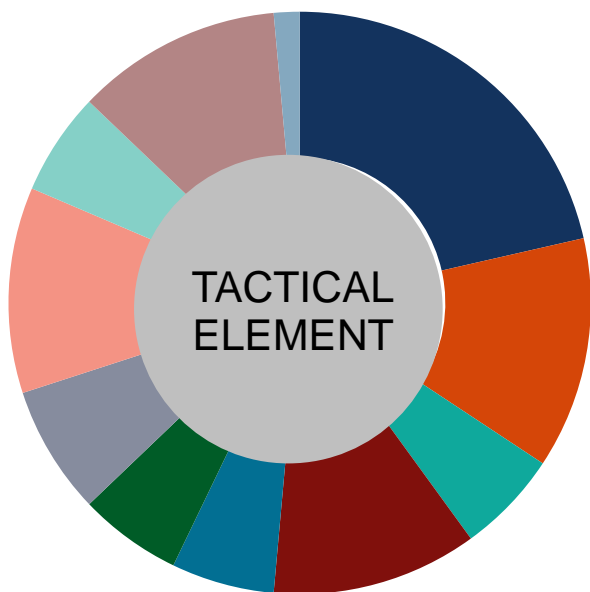
TIME

Dynamic Goals-Based Approach ›

What It Means to Your Client

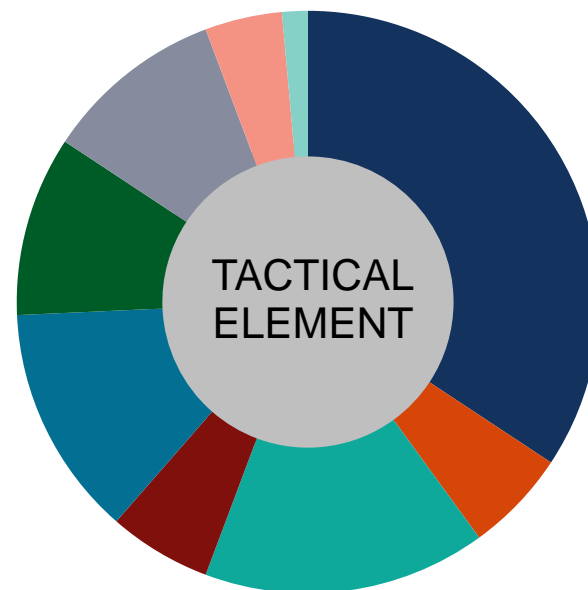
Goal: Market Returns with Less Volatility

Private Client Moderate Model



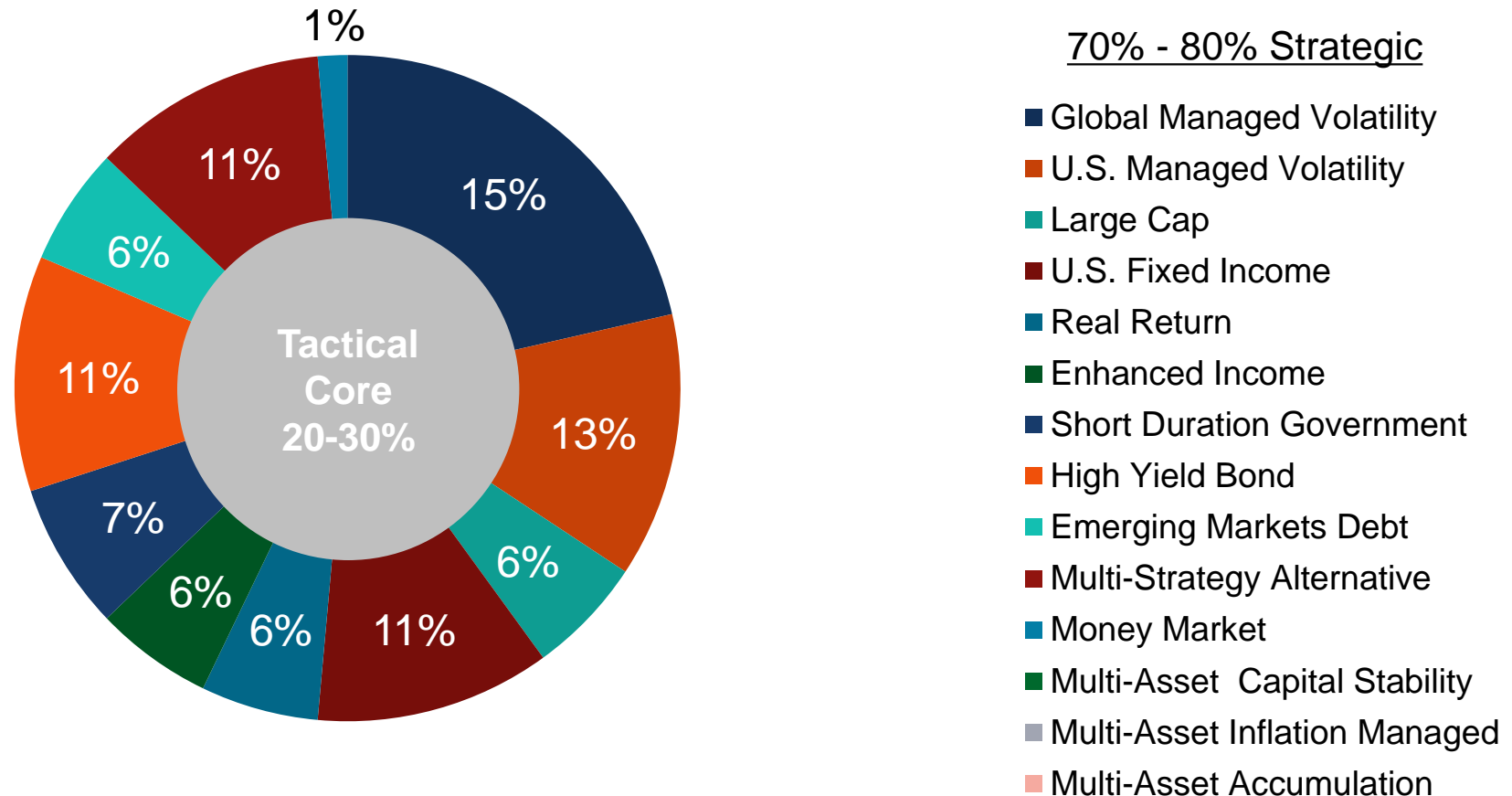
- Global-managed Volatility
- US-managed Volatility
- Large Cap Equity
- US Fixed Income
- Inflation-protected Bond
- Enhanced Income
- Short Duration Gov't Bond
- High Yield Bond
- Emerging Markets Debt
- Alternatives
- Cash

Private Client Market Growth Model



- Large Cap Equity
- Small Cap Equity
- International Equity
- Emerging Markets Equity
- US Fixed Income
- High Yield Bond
- Emerging Markets Debt
- Alternatives
- Cash

Dynamic Goals-Based Approach › Tactical Core

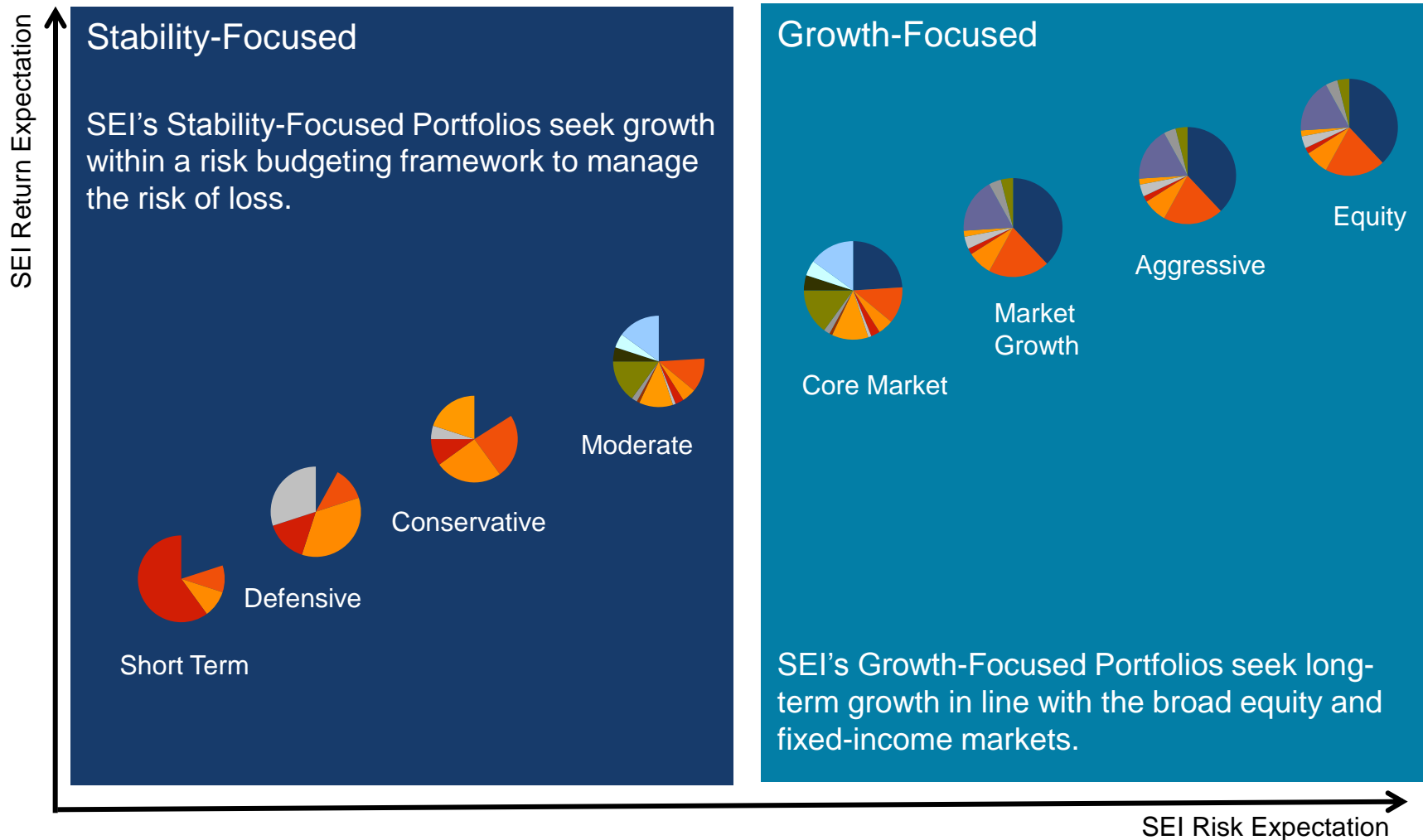


The multi-asset funds are designed to provide a core of fluid asset allocation changes

Allocations subject to change
For illustrative Purposes only

Investment Offering for Private Clients ›

A Goals-based Approach



Client Process › Monitoring with Goals-based Statements

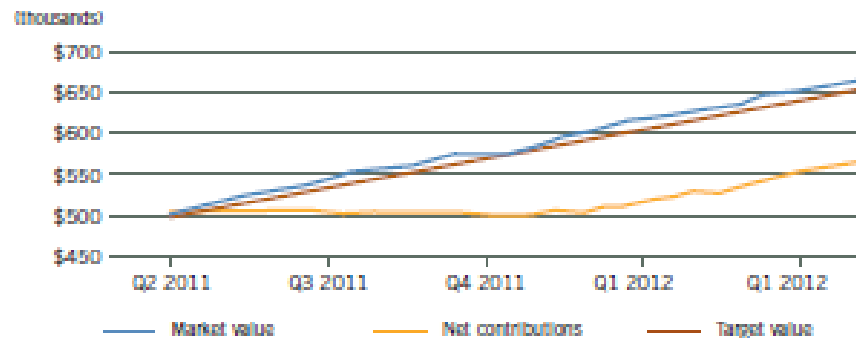
Your quarterly portfolio statement
April 1, 2012– June 30, 2012

Are you meeting your goals? (continued)

Your goal: Current Lifestyle

How you are tracking toward your goal

How you are tracking toward your goal



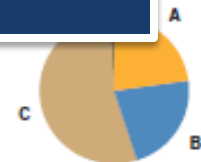
	Market value on June 30, 2012 (\$)	Net contributions on June 30, 2012 (\$)
234567 William Jones IRA	253,570.11	202,167
345678 Kathryn Jones IRA	396,876.00	364,198
Total of this group	\$650,446.11	\$566,365

You specified the following when you set up your goal:

Starting date of goal	January 2009
Value you set for starting date	\$510,000
Target date of goal	2015
Value you set for target date	1,000,000

Tracking progress to a goal – “Am I on Track?”

Asset allocation		
A Domestic equities		
B International equities		
C Domestic fixed income	349,846.37	54%
D Cash and equivalents	7,520.50	1%
Total of this group	\$650,446.11	100%



Sample statement used for illustrative purposes only.

Goals-Based Investing › Mitigates Client Behavior Biases

Behavior	How a Goal Focus Can Help
<p>Herding</p> <p>The tendency to imitate others, believing they have information that justifies their actions.</p>	<p>More confidence in a Goals Based wealth management strategy, the investor is less swayed by public opinion.</p>
<p>Overconfidence</p> <p>Tendency to overestimate knowledge and predictive ability, resulting in excessive, irrational trade volumes or “noise” trading.</p>	<p>Irrational overconfidence is displaced by a clear vision of where the investor is headed and his strategy for getting there.</p>
<p>Myopic loss aversion</p> <p>Paying inordinate attention to the market’s short-term ups and downs, forgetting the market’s long-term direction has been up.</p>	<p>The fear of loss is averted by highlighting the capital preservation aspect of Goals Based Strategy. If the investor understands the realistic exposure to capital loss, the withdrawal behavior is significantly curtailed.</p>
<p>Anchoring</p> <p>Decision makers tend to form and anchor on strongly held opinions and are reluctant to revise their views in the face of new and contradicting information.</p>	<p>Investor is more willing to let go of bias knowing that, right or wrong, the important thing is achieving a goal..</p>

Recent Research › Financial Goals or Performance?

Investors understand goals, not market benchmarks

- Given the choice between ‘performance exceeding the market benchmark’ and ‘reaching financial goals,’ the majority of investors are most satisfied with their financial advisors when they reach their financial goals.
- Across all affluent wealth tiers, approximately nine-in-ten investors are satisfied with their financial advisor as long as they are able to meet their financial goals (91% of Mass Affluent, 87% of Millionaires, 94% of Penta-Millionaires).

Source: Phoenix Marketing International (PMI) , Wave 2, October-November 2013

Goals Based Investing › Summary

- It provides an opportunity to engage your clients in a positive and constructive conversation.
- It changes the dynamics of the relationship from beating a benchmark to achieving goals.
- It changes the behavior of clients during volatile markets to help them focus on what's important.
- It helps clients create a rational framework for expectations and measures of success.
- It creates a foundation for client relationships that are deeper financially and provides for increased retention.
- It creates true differentiation of your advice and solutions to current and prospective clients.

Who We Are

SEI is a leading global provider of wealth management solutions. We help professional wealth managers, institutional investors, and private investors create and manage wealth – and enable their long-term success – by providing solutions that are both comprehensive and innovative.

A Market Leader

- Manages \$232 billion assets¹
- Administers \$327 billion in client assets¹
- Processes 1.7 million end-investor accounts²
- Leading global provider of Bank Trust technology
- 9 of the 20 largest North American banks are clients²

A Successful Company

- Founded in 1968, a public company since 1981 (NASDAQ: SEIC)
- 2013 revenues: \$1.13 billion²
- 2013 net income: \$288.1 million²

A Global Company

- 2,727 employees worldwide¹

SEI Advisor Network

- 20 years of experience in providing outsourced solutions to independent advisors
- Over 5,700 advisors using SEI's solution¹
- \$41.0 billion in advisors' AUM¹
- One-stop accountability with SEI Private Trust Company

¹As of December 31, 2013

²As of December 31, 2013



SEI Advisor Network ▶ A Comprehensive Solution

INVESTMENT & WEALTH PROGRAMS			ADMINISTRATION & TECHNOLOGY		PRACTICE MANAGEMENT PROGRAMS		
Investment Philosophy	Investment Strategies	Wealth Programs	Admin, Accounting, & Reporting	Technology	Business Transition	Case Management	Marketing & Growth Programs
<ul style="list-style-type: none"> • Scientific, Disciplined, and time-tested Approach • Supports Liquidity, Accumulation & Distribution • Targeted Asset Allocation • Multiple Specialist Managers with Dynamic Asset Allocation • Ongoing Oversight 	<ul style="list-style-type: none"> • Mutual Fund Models • Separate Accounts • ETF Strategies • Goals -Based Strategies • Distribution - Focused Strategies • Tax Management • Taxable Ladders <ul style="list-style-type: none"> - Corporate - TIPS • Municipal Ladders <ul style="list-style-type: none"> - National - State Focused/ Specific 	<p><i>Banking</i></p> <ul style="list-style-type: none"> • FDIC-insured CD Program • Debit Card • Online Bill Pay • Checking • Securities-Backed Lines of Credit • Insurance Premium Payment Program (IP3) <p><i>Trusts</i></p> <ul style="list-style-type: none"> • Agent or Directed Trustee in 50 States 	<ul style="list-style-type: none"> • Custody • Trade Processing • Systematic Withdrawals • Tax Management • Tax Reporting • Advisor Fee System • Portfolio Rebalancing • Goals -Based Client Statements • Advisor Reporting 	<ul style="list-style-type: none"> • Advisor Website • Downloading Capabilities <ul style="list-style-type: none"> - Albridge - Portfolio Center - Advent - Others • On-line Performance Reporting • Investor Website 	<ul style="list-style-type: none"> • Dedicated Project Management Team • Client Segmentation • Develop a Project Plan • Complete IPS & Proposals • Complete all Account Open Paperwork • Assist in End-Client Meetings 	<ul style="list-style-type: none"> • Investment Advice, Planning, & Presentation Support • Experienced Team of CFAs, CFPs, & CPAs. • Customized Performance Analytics • Ongoing Proposal Support • On-Line Proposal Tool 	<ul style="list-style-type: none"> • Custom Marketing Materials • Investor-Approved Seminars • Research Papers and Commentaries • Quarterly Investment Reviews • Coaching & Growth Programs • Revenue Tip of the Month Program • Market Positioning & Branding

Disclosures

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There are risks involved with investing, including loss of principal. Current and future portfolio holdings are subject to risks as well. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice. This information is for educational purposes only.

Alternative investments are subject to a complete loss of capital and are only appropriate for parties who can bear that risk and the illiquid nature of such investments.

Alternative investments:

- Often engage in leveraging and other speculative investment practices that may increase the risk of investment loss
- Can be highly illiquid
- Are not required to provide periodic pricing or valuation information to investors.
- Involve complex tax structures and delays in distributing important tax information
- Are not subject to the same regulatory requirements as mutual funds; and
- Often charge high fees.

Disclosures

Investing in the Funds is subject to the risks of the underlying funds. Asset allocation may not protect against market risk. Due to their investment strategies, the Funds may buy and sell securities frequently. The use of leverage can amplify the effects of market volatility on the Fund's share price and may also cause the Fund to liquidate portfolio positions when it would not otherwise be advantageous to do so in order to satisfy its obligations.

High-yield securities may be more volatile, be subject to greater levels of credit or default risk and may be less liquid and more difficult to sell at an advantageous time or price to value than higher-rated securities of similar maturity.

Commodity investments and derivatives may be more volatile and less liquid than direct investments in the underlying commodities themselves. Commodity-related equity returns can also be affected by the issuer's financial structure or the performance of unrelated businesses. The Fund's use of futures contracts, forward contracts, options and swaps is subject to market risk, leverage risk, correlation risk and liquidity risk.

International investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations. Emerging markets involve heightened risks related to the same factors as well as increased volatility and lower trading volume.

Bonds and bond funds will decrease in value as interest rates rise. High yield bonds involve greater risks of default or downgrade and are more volatile than investment grade securities, due to the speculative nature of their investments. TIPS can provide investors a hedge against inflation, as the inflation adjustment feature helps preserve the purchasing power of the investment. Because of this inflation adjustment feature, inflation protected bonds typically have lower yields than conventional fixed rate bonds.