Changing the Conversation: Goals-Based Investing

JOHN E. COYNE, III, Vice Chairman, Brinker Capital
Brinker Capital
Great Ideas + Strong Discipline = Better Outcomes

Brinker Capital Provides:

- Goals-based investment strategies built from our multi-asset class investment philosophy

Brinker Capital Believes:

- An emphasis on outcome-oriented investing will help change the conversation in the wealth management advice delivery system

Assets Under Management: $18.3 Billion

Ideas

Brinker Capital: Great Ideas

Source: Brinker Capital, Inc.
Discipline

Our approach is based on three core principles.

They help us stay focused and flexible, so that every decision we make and every strategy we implement serves the investor.
Outcomes

Multi-asset class strategies can help manage behavioral biases because they manage volatility.

Source: Brinker Capital
Today’s Agenda

Investors Need a Framework

Personal Benchmark: Taking the Conversation from “The Economy” to “My Economy”

Now Change the Conversation
Investors Need a Framework
The Trend Toward Outcome Oriented Investing

- The Great Recession made it all too clear to many investors and advisors that risk management practices were inadequate.
- -30 to -50% hits to portfolios put personal financial goals at risk.
- Many asset allocation strategies didn’t adequately manage risk.
Investors Goals and Disruptors

**Investor Goals:**
- Retirement
  - Education
  - Travel
  - Vacation home
  - Legacy / philanthropy

**Game Changers:**
- Aging parents
  - Boomerang kids
  - Death & illness
  - Divorce
  - Job loss

**General Disruptors:**
- Market greed & fear
- Interest rates & inflation
- Media hype
- Political turmoil

Source: Natixis Study, May 2014

(66%) of American adults have experienced an event or situation that has had a negative effect on their financial plans for the long-term/retirement.
A loss of employment or having to take a lower-paid job is the most common disrupter of these “disrupted Americans.”
Investors are Driving the Change in Conversation

- The investment advisory conversation needs to change
- Investors are interested in outcomes
- Outcomes are best achieved by goals-based investing
Personal Benchmark: Taking the Conversation from “The Economy” to “My Economy”
How to Help Improve Investor Behavior

Performance of the markets vs. an average mutual fund investor
January 1, 1985 to December 31, 2014

Source: Quantitative Analysis of Investor Behavior (QAIB), 2015, DALBAR, Inc. www.dalbarinc.com. Average equity fund investor and average bond fund investor performance results are based on the DALBAR 2015 QAIB study. DALBAR is an independent, Boston-based financial research firm. Using monthly fund data supplied by the Investment Company Institute, QAIB calculates investor returns as the change in assets after excluding sales, redemptions and exchanges. This method of calculation captures realized and unrealized capital gains, dividends, interest, trading costs, sales charges, fees, expenses and any other costs. After calculating investor returns in dollar terms, two percentages are calculated for the period examined: Total investor return rate and annualized investor return rate. Total return rate is determined by calculating the investor return dollars as a percentage of the net of the sales, redemptions, and exchanges for the period.

Hypothetical balanced investment based on the performance of an investment weighted 50% to the S&P 500 index and 50% to the Barclays Aggregate Bond Index and rebalanced monthly. Equity benchmark performance is represented by the Standard & Poor's 500 Composite Index, an unmanaged index of 500 common stocks generally considered representative of the U.S. stock market. Fixed income benchmark performance is represented by the Barclays Aggregate Bond Index, an unmanaged index of bonds generally considered representative of the bond market. Indexes do not take into account the fees and expenses associated with investing, and individuals cannot invest directly in any index. Performance of an index is not illustrative of any particular investment. Past performance is no guarantee of future results.

Brinker Capital seeks to help financial advisors narrow the investor behavior gap.
Distortion of Measurement

- Retirement
- Vacation
- Home
- Family
- Legacy
- Travel
- Charitable
- Giving
- Start
- Business

S&P 500 Index
Barclays Aggregate Index
Russell 3000 Index
Personal Benchmark: Strong Discipline in Behavioral Finance and Investment Management

Why Buckets?

- Uses natural tendency to simplify for investor benefit
- Returns can be rationally evaluated in relation to their purpose
- Meets needs for safety and performance simultaneously

Rest easy, knowing my bases are covered - SAFETY
What I need to support my current lifestyle - INCOME
Opportunities that aim to diversify from the markets - TACTICAL
What I’ll need for down the road - ACCUMULATION

Source: Brinker Capital, Inc.
● With goals-based investing, investors will be less likely to get distracted by market conditions. **Goals-based investing can help manage behavioral biases.**

● **Goals-based investing avoids setting personal investment strategies on the basis of indexes.** Indexes should be used to understand the current economic and investment environment and measure and evaluate the performance of strategies adopted to achieve several separate goals.

Source: Brinker Capital, Inc. For illustrative purposes only. Holdings as of 12/31/14 and are subject to change.
Now Change the Conversation
Financial advisors can finally execute on “packaged behavioral finance” within their practice

Source: Brinker Capital, Inc.
Clients End Up Measuring Performance Against Their Personal Benchmark

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Provides Access to Market Returns While Attempting to Constrain Irrational Behavior

### Stable Growth and Income Portfolio

#### Historical Table of Investment Returns

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<td><strong>Accum.</strong></td>
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<td>16.1%</td>
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<td>1.4%</td>
<td>3.2%</td>
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<td>1.1%</td>
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<tr>
<td><strong>Tactical</strong></td>
<td>9.4%</td>
<td>8.0%</td>
<td>4.9%</td>
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<td>1.3%</td>
<td>2.7%</td>
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<tr>
<td><strong>Income</strong></td>
<td>7.4%</td>
<td>8.4%</td>
<td>7.6%</td>
<td>3.4%</td>
<td>1.1%</td>
<td>1.9%</td>
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<td><strong>Safety</strong></td>
<td>2.0%</td>
<td>6.3%</td>
<td>1.5%</td>
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<td><strong>Tactical</strong></td>
<td>-1.6%</td>
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<td>-1.2%</td>
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<td><strong>Accum.</strong></td>
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Source: Brinker Capital, Inc. The net performance for this chart is hypothetical and is derived from other Brinker Products utilizing composite data. The net composite data is derived utilizing the weighted average of the Brinker Capital and Advisory fees which is an assumed 1.50% taken out quarterly and rebalanced monthly. The performance results contained herein do not represent the actual trading or investment performance of actual accounts invested in accordance with the Recommended Investment Strategy but were produced through the retroactive application of the Recommended Investment Strategy using the target allocations to the specific investment strategies included in the Recommended Investment Strategy as currently configured, which was developed with the benefit of hindsight. No representation that any actual account has achieved such performance is intended.
Tools to Help You Change the Conversation

Brinker Capital designed Personal Benchmark to be an investment strategy that helps create purchasing power and manage the behavioral conflicts which surface while advising investors.

This guide will help you better understand the enhancements to the Performance Report and can be used as a tool to deepen the relationship with your client.

Frame the discussion: It’s a post-committed
Historically, investment performance rather than good investor behavior has been the primary determinant of investment success. However, few know that investor behavior actually far outweighs investment performance in determining success. Meaning that both the financial advisor and the client have an important role to play in ensuring that goals are met.

Take this opportunity to become a part of your client’s future. Reinforce the value you bring to the relationship by helping them make sound investment decisions, provide encouragement and education as well as serve as a trusted and sounding board for all financial decisions. Remember, in today’s client’s current needs should be weighed against long-term needs, whereas a personal (rather than market) benchmark, makes evaluating contributions to an account and evaluating returns taken in a rational behavior. Framing the conversation this way is not only more accurate, it also improves the investor’s overall investment.

Use mental accounting to help investors understand investment strategies
Make it personal
Investors tend to mentally assign money related to the goals they have designated a certain bucket of money. Money that is lumped into one large account, or typically done at investment houses, leaves the plan holder power to allocate. However, money that has been segregated into buckets that have deeper personal meaning can serve as a “trusted” or “good” behavior. There are two primary reasons why this is the case — personal goals likely to be long or medium term, they touch the investor’s sense of purpose and they provide more reasons for meaningful, increased returns. 

Be sure to congratulate your client as they achieve small milestones in each of their buckets and provide them with a sense of how far they have come and how far they have yet to go.

— Daniel Crosby, Ph.D.
Helping Investors Achieve Goals-Based Investing

Summary:

**Investors Need a Framework**: Coming out of 2008, advisors and their clients can have confidence in a partner like Brinker Capital

**Personal Benchmark**: Creates a goals-based investment process by combining behavioral finance and investment management

**Helping Change the Conversation**: Creative, scalable and disciplined yet individualized approach to outcome-oriented investing
Next Steps

Let’s exchange business cards so I can send you a book

Test drive a Personal Benchmark proposal with 3 “at risk” clients

Use the Personal Benchmark Quarterly Report to help change the conversation
Brinker Capital’s Personal Benchmark

Brinker Capital, Inc.
A Registered Investment Advisor
800.333.4573
www.BrinkerCapital.com
Important Information

Opinions and research referring to future actions or events, such as the future financial performance of certain asset classes, indexes or market segments, are based on the current expectations and projections about future events provided by various sources, including Brinker Capital’s Investment Management Group. Information contained within may be subject to change.

Investing in any investment vehicle carries risk, including the possible loss of principal, and there can be no assurance that any investment strategy will provide positive performance over a period of time. The asset classes and/or investment strategies described in this publication may not be suitable for all investors.

Investment decisions should be made based on the investor’s specific financial needs and objectives, goals, time horizon, tax liability, and risk tolerance. When investing in managed accounts and wrap accounts, there may be additional fees and expenses added onto the fees of the underlying investment products.

For more information about Brinker Capital and our investment philosophy, including information on fees, you may request a copy of our Form ADV Part II from a Brinker Capital Client Services representative at 800.333.4573 or at clientservice@brinkercapital.com. Brinker Capital does not render tax, accounting, or legal advice.
Past performance is no guarantee of future results. Brinker Capital does not have composite historical performance information for the Personal Benchmark Program. The performance results contained herein do not represent the actual trading or investment performance of actual accounts invested in accordance with the Recommended Investment Strategy but were produced through the retroactive application of the Recommended Investment Strategy using the target allocations to the specific investment strategies included in the Recommended Investment Strategy as currently configured, which was developed with the benefit of hindsight. No representation that any actual account has achieved such performance is intended. All calculations are based on monthly data and assume annual rebalancing of the account to the target allocations in the Recommended Investment Strategy. The calculations do not reflect the rebalancing methodology that Brinker Capital intends to utilize in connection with the management of accounts invested in its Personal Benchmark Program, which methodology allows for some “drift” from the targeted allocations of an Investment Strategy and, therefore, may permit greater variation from the target allocations than are reflected in the back-tested performance results included herein. However, Brinker Capital believes that annual rebalancing of the hypothetical account for purposes of back-testing performance of the recommended Investment Strategy will provide the closest approximation of the performance of an account invested in the recommended Investment Strategy.

Returns are calculated gross (before the deduction) of advisory fees payable to Brinker Capital and any other expenses for services not covered by the advisory fee including administrative costs, which would reduce your return. The net effect of the deduction of Brinker Capital’s fees on annualized performance, including the compounded effect over time, is determined by the relative size of the fee and the account’s investment performance. The chart below depicts the effect of a 1% management fee on the growth of one dollar over a ten year period at 10% (9% after fees), 5% (4% after fees) and 3% (2% after fees) assumed rates of return.

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