

## VIEWPOINT

### *A call to embrace goals-based wealth management*

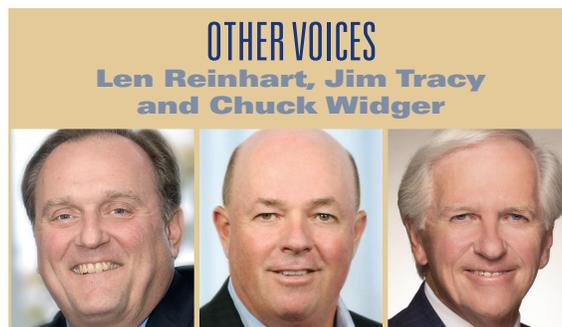
A sea change is under way in the financial services sector, one with two dominant currents. The first swirls around demographics and the evolving needs of different generations of investors. The second is what we consider the inevitable movement toward a holistic, goals-based approach to wealth management that will meet those changing needs.

Given this backdrop, we believe our industry has a unique opportunity to come together to examine, collaborate on and accelerate the movement toward goals-based wealth management. Such an undertaking would be the logical next step in the evolution of advice delivery, which has seen a steady stream of improvements in the processes, products and services our industry provides to individual investors.

To date, our industry has focused largely on the accumulation side of the investor equation, helping clients build the asset base needed to support themselves during their retirement.

With 76 million baby boomers approaching or now entering retirement, the industry's focus has broadened to include decumulation strategies designed to enable investors to tap their accumulated wealth in the most advantageous way to ensure a steady stream of income. That shift from accumulating assets to preparing to draw them down, and

**INVESTORS** still see wealth management as centering on the fulfillment of hopes and dreams.



actually doing so, is necessitating a significant change in thinking and approach for investors, and the financial advisers and investment firms that serve them. Individual investors — along with those to whom they turn for advice — have been thrust into the role of pension managers.

To achieve their goals, these newly minted pension managers must implement and coordinate the management of the multiple accounts and products owned by the typical investor household.

This entails identifying investment goals and risk tolerance; developing and monitoring a goals-based financial plan; and determining an appropriate mix of investments. This should include asset allocation at the account and household levels and across all account structures, such as taxable and nontaxable accounts, 401(k) plans and brokerage accounts.

Additional steps include optimally managing asset location for tax purposes; re-balancing the household portfolio over time to maintain the target risk and asset allocation profile; and drawing income from multiple products, account types and income sources in the most tax-efficient manner.

#### **RENEWED FOCUS**

These tasks are at the core of goals-based wealth management, which the Money Management Institute defines as a comprehensive approach to providing guidance to investors so they can achieve their lifetime goals, beginning with the accumulation of household assets on through to the withdrawal and bequest stages.

While this may not sound like a new concept, it has

yet to be implemented in a fully integrated, scalable way. Many of the largest firms in the wealth management industry are developing next-generation capabilities and systems that will deliver a comprehensive household-management solution that seamlessly connects goals-based planning, product coordination, asset allocation, investment management and income distribution.

What can the industry do collectively to lay the foundation for broad acceptance and adoption of goals-based wealth management? These represent some of the elements we believe should be incorporated into a strategic and operational plan to coordinate industrywide support:

**Financial literacy.** Marshal our resources and collaborate with private and public institutions to prioritize addressing the critical problem of the woefully low rate of financial literacy in the United States. Our industry can't solve this problem on its own.

**Simplification.** Find ways to help make investing more straightforward for clients. Because of the increasing number of variables involved, investing has become a complex process. We must focus on client goals rather than products and benchmarks, and continue to evolve advice delivery so that it is increasingly accessible, efficient and intuitive.

**Partnering.** Create a broad coalition of stakeholders, including academia and research institutions, along with financial services providers, to evaluate and articulate the elements and processes that form the basis of goals-based wealth management.

**Measurement.** Support research aimed at developing "scoring" metrics that measure the emergence, adoption and effectiveness of goals-based wealth management.

**Standards.** Define and describe the components of goals-based wealth management, and create industry standards and best practices for each. For example, a clear benefit to all would be development of universally accepted standards around outcome-oriented performance reporting.

**Regulation.** Work with industry regulators and government decision makers to examine and advance policies that clearly benefit investors.

**Technology.** Evaluate technological and operational challenges and opportunities with respect to the management, trading and reporting of the multiple accounts in a typical household. Client expectations are shaped every day by their online experiences with other industries, and ours must continue to keep pace.

## AN INDUSTRY OBLIGATION

Because of the potential benefits to clients, bringing coordinated, goals-based wealth management to fruition is not

just an industry task but an industry obligation. The responsibility for investors — who must act as stewards of their wealth over the course of decades — is monumental. Yet for them, the complex wealth management process still centers on fulfilling hopes and dreams.

To enable our clients' aspirations, our industry must continue to evolve and innovate. As noted at the outset, we believe that embracing goals-based wealth management is the logical next step.

Working together is the most effective way for our industry to develop scalable capabilities that enable the seamless integration of goals-based planning with optimal investment strategy development, and coordinated implementation and execution at the client household level.

By harnessing technology to empower financial advisers to deliver a disciplined and consistent investing experience to more investors, we can "move the needle" and help more clients realize their lifetime financial goals for themselves and their families.

Given the investment challenges our clients face, their need for professional guidance in managing their assets has never been greater. Neither the advisory business model nor the traditional brokerage construct alone provides the appropriate solution for every client.

Most clients have and will continue to have both fee-based advisory and brokerage assets. There is a place for each, and that is what goals-based wealth management is about: coordinating the full range of accounts in the typical client household.

In the best of all worlds, the critical elements in this equation become the professional financial advisers, and the processes and tools they bring to the table to help determine which model or combination of models works best for a particular investor.

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