

# GOAL-BASED INVESTING: AN INTRODUCTION

Goal-based investing offers a holistic approach to managing wealth by carefully aligning your investments with your life and legacy goals. It aims to bring discipline to investing by putting your financial objectives at the center of the investment process.

With goal-based investing, each investment has a purpose that is tied to a specific objective—for example, saving for retirement or buying a vacation home. Instead of measuring an investment's progress against benchmark returns or market performance, success is measured by how well an investor's portfolio is tracking against the goals set for it.

## 3 STEPS TO BUILDING GOAL-BASED PORTFOLIOS

One of the benefits of goal-based investing is that it can help investors stay disciplined and focused on their long-term objectives. This is especially important during periods of market volatility, when investors are likely to feel anxious about the value of their investments. Knowing they have a carefully articulated plan that reflects their personal goals can help investors maintain a long-term term view.

## HOW GOAL-BASED INVESTING WORKS

### STEP 1: IDENTIFY AND PRIORITIZE GOALS

Together with the help of a financial advisor, you should begin by identifying your financial goals—whether it's generating future retirement income, funding a child's or grandchild's college education, saving for a family wedding, or supporting a charitable cause.

The next step involves establishing the timing and characteristics related to each objective. Some may be one-time goals while others could be ongoing or periodic, like meeting annual retirement income needs.

It can be helpful to categorize your goals based on time horizon:

- Short-term goals: 0-4 years
- Mid-term goals: 5-14 years
- Long-term goals: 15+ years

If you have multiple goals, it's important to rank them by their level of importance. Knowing their relative priority makes it easier to determine which you may be able to reduce or eliminate if necessary.

Prioritizing your goals can also help you identify your tolerance for market risk. For example, you may be unwilling to take on substantial risk with your most important goal; conversely, you may be willing to assume more risk to achieve aspirational, yet lower priority goals.

## THE PRIORITIZATION CHALLENGE

One of the biggest challenges of goal-based investing is that it involves mapping out and prioritizing your goals. At times, this can be difficult because it requires you to:

- Pause and think critically about what matters most
- Prioritize future goals relative to more urgent present-day needs
- Confront the possibility you may not be able to achieve everything in the time you have

An experienced financial advisor can work closely with you to help establish goals and priorities and apply the knowledge needed to implement a customized strategy.

## STEP 2: ALIGN INVESTMENTS WITH GOALS

Once you've identified and ranked your goals, your advisor can help identify different investments aimed

at meeting each of these objectives. You'll want to allocate your assets in investments aligned with the importance and time horizon established for each goal.

Consider the following:

- **Short-term:** If your goal is less than four years out, you probably can't afford to take on too much market risk. In this case, consider matching short-term goals with more conservative investment vehicles, like money market funds or short-term high-quality bonds to help preserve principal.
- **Mid-term:** Depending on the exact timing of your goals, a blend of stocks and bonds may be appropriate. For example, if your mid-term goal is 10 years out, consider funding the goal with 50% stocks and 50% bonds.
- **Long-term:** If you have a longer time horizon, it's likely that you can afford to match your goal with more exposure to stocks. In general, a longer holding period allows investors to weather periods of short-term volatility in exchange for higher potential returns over time.

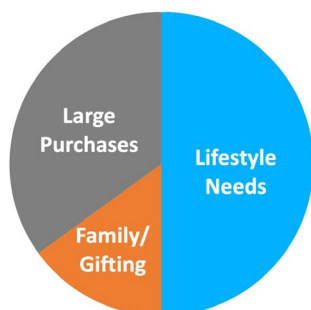
## STEP 3: ALLOCATE ASSETS ACCORDINGLY

The next step in building a goal-based strategy involves carefully allocating investments based on your personal financial strategy or roadmap, while ensuring that your overall portfolio is well-diversified, as illustrated in Figure 1.

Figure 1: Goal-Based Investing: A Targeted Allocation

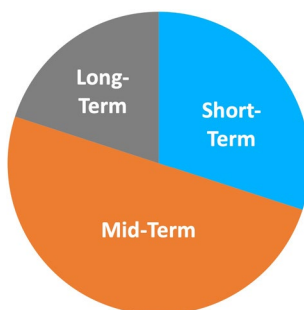
### 1) Determine Goals

- Current income
- Retirement
- Large purchase
- Family/gifting



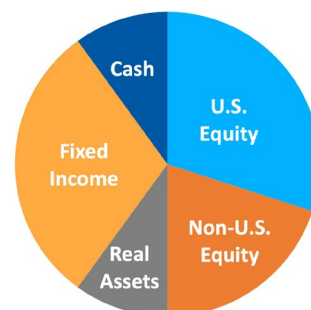
### 2) Assess Characteristics

- Timing of goals
- Importance of goals
- Risk tolerance



### 3) Finalize Asset Allocation

- Equities & fixed income
- Financial & real assets
- Human capital
- Diversification value
- Liquidity



## STEP 4: REVIEW YOUR FINANCIAL PLAN OVER TIME

Over time, as you near the distribution phase of your financial goals, investments should be evaluated and reallocated accordingly. For example, as goals migrate from long- to short-term, the underlying investments should gradually become more conservative. Additionally, your goals may be impacted by major life events, such as: marriage, divorce, the birth of a child, a new job, the death of a spouse, or a change in your target retirement date. It's essential that you take the time to review your financial goals at least annually to ensure that they remain aligned with your investment strategy and underlying portfolio assets.

## BENEFITS OF GOAL-BASED INVESTING

### REDUCE STRESS DURING MARKET VOLATILITY

A goal-based investing strategy may help to reduce investor worry during market upheavals. That's because a decline is unlikely to put your long-term goals in jeopardy if short-term objectives are funded with stable value assets. And while long-term goals allocated to stocks may be impacted in the short-term, you still have the benefit of time to recover and participate in future market growth.

## STAY FOCUSED ON WHAT MATTERS

As many financial advisors can attest, it's all too easy for investors to panic and make poor investment decisions when market volatility strikes. Because a goal-based approach puts your personal goals at the center of the investment process, it can help avoid distractions and stay focused on what truly matters.

### FEEL MORE CONFIDENT ABOUT YOUR PROGRESS

Finally, because a goal-based strategy measures your progress toward your individual goals, and not an arbitrary benchmark, it can provide you with a much greater level of transparency about your progress and a higher degree of confidence that you're on track to achieve those objectives.

## TAKE THE NEXT STEP

You may find a goal-based investing approach feels more intuitive and provides you with greater clarity about the objectives you have established for yourself and your family and whether you're on track to achieve them.

A trusted financial advisor can provide guidance with implementing a goal-based investing strategy. If you already have a goal-based strategy in place, now may be a good time to revisit those objectives and evaluate your progress towards meeting them.

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