Sample - Henlopen McZhao

Philanthropy:	Cree's wife strongly influences him to fund her philanthropic causes, and he wants to maintain some level of annual contribution. Cree believes that his wife would be willing to maintain her $10,000 per year contributions and not increase that amount.
Antique furniture:	Cree is willing to reduce or eliminate his spending on antique furniture.

➤ **Solutions**

➤ With respect to goal quantification, Cree has quantified his retirement spending needs, the cost to maintain his antique purchases, and his wife's philanthropic support. McZhao should work with Cree to help estimate the costs for his children's university expenses and what he expects to pay for the investment property.

Sample - Henlopen McZhao

➤ **Solutions (Cont.)**

➤ With respect to goal prioritization, even though Cree believes that his highest priority is his next big expense ($15,000 for this year's additions to his antique collection), the timing of that expense should not be the sole determinant of its priority. McZhao needs to discuss with Cree which of his goals are most important. The purchases of expensive antiques and the large philanthropic contributions may adversely affect Cree's ability to fund his retirement lifestyle. Therefore, McZhao should help Cree consider reevaluating his priorities.

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Sample - Sharfepto Zik

> **Solutions**
> Investment Objectives:
>
> - Purpose: Support Patel's lifestyle in retirement (higher priority), provide for family's needs (higher priority), fund philanthropic activities (lower priority), provide inheritance for children (lower priority)
> - Anticipated annual need: €200,000, with annual increases for inflation
> - Annual need met with: Income from small business (approx. €120,000), pension (€50,000 with annual inflation increases), portfolio distributions
> - Intent to purchase of €1.4 million vacation home in three years
> - Zik should assist in quantifying philanthropic and bequest goals and determining how to fund the vacation home purchase.

Sample - Sharfepto Zik

2. **Evaluate** the success of Zik's investment program for Patel in terms of:
   I.   goal achievement.
   II. process consistency.
   III. portfolio performance.

➢ **Solutions**

➢ By all three criteria, Zik has been successful.

➢ **Goal achievement:**

   ■ Patel's portfolio has achieved its goals with an acceptable amount of risk; its return and volatility have remained within the original IPS specifications.

   ■ The portfolio remains likely to succeed as an ongoing strategy, without meaningful adjustments to the plan; the most recent capital sufficiency analysis shows that the strategy is very likely to meet Patel's retirement needs.

Sample - Sharfepto Zik

➢ After every regular monthly rebalancing, Zik sends an email to Patel with a portfolio report. Zik's portfolio report contains the following:

- An asset allocation report that reflects strategic asset allocation targets

- A detailed performance report that includes individual asset class and security performance

- A year-to-date performance summary report and a historical performance report starting from the inception of Patel's investment strategy

3. **Recommend** additional information that Zik could provide to enhance his portfolio reports for Patel.

Sample - Sharfepto Zik

> ## **Solutions**
> Zik's portfolio reporting can be made more effective by including the following items:
>
> - A transaction details report showing contributions, withdrawals, interest and dividends, and capital appreciation for the current period
> - A purchase and sale report for the current period
> - Currency exposure report detailing the effects of exchange rate fluctuations
> - A benchmark report that shows the performance of Patel's equity and bond portfolios relative to their respective benchmarks and the overall portfolio performance relative to a blended benchmark (based on weights that are appropriate for Patel's holdings)
> - An accompanying letter that provides market commentary, investment context, education, and other advice

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Sample - Val Sili

2. **Identify** each approach that Sili uses to analyze his retirement goals. Explain each response.

Approach 1	Identification:	Mortality Tables
	Explanation: A mortality table allows for estimating the present value of retirement spending needs by associating each outflow with a probability based on life expectancy. Sili uses a mortality table to determine the probability that he will live to a certain age. This information allows him to predict his anticipated inflation-adjusted retirement spending according to the probability that he will be living in a given year. A mortality table illustrates an individual's life expectancy at any given age. A wealth manager can use a mortality table to estimate the present value of a client's retirement spending needs by assigning associated probabilities to annual expected cash outflows.	

Sample - Val Sili

Approach 2	Identification:	Annuity Method
	Explanation: The calculated price of an annuity equals the present value of a series of future fixed outflows during retirement. A relatively simple way for Sili to calculate the present value of his desired retirement spending is by pricing an annuity. Annuities provide a series of fixed payments, either for life or for a specified period, in exchange for a lump sum payment.	

Sample - Val Sili

Approach 3	Identification:	Monte Carlo Simulation
	Explanation: Monte Carlo simulation yields an overall probability of meeting retirement needs by aggregating the results of many trials of probability-based estimates of key variables, and it is a flexible approach for exploring different retirement scenarios. Monte Carlo simulation can analyze the likelihood of Sili's portfolio meeting his anticipated retirement needs. This simulation models the uncertainty of the key variables and the uncertainty or variability in the future outcome. A Monte Carlo simulation uses assumptions of probability distributions for the key variables and then runs a large number of independent trials that generate many random outcomes. These outcomes are then aggregated to determine the probability of Sili reaching his investment objectives. An advantage of Monte Carlo simulation for retirement planning is its flexibility in modeling and exploring different scenarios. Typically, retirement goals are more complex than a fixed, annual cash flow need. For instance, if Sili wishes to determine the effect of a significant purchase/gift or large unforeseen expenses, he can model these scenarios with a Monte Carlo simulation.	