

Goals-Based Investing the CNR Way

A FRESH TAKE ON AN ESTABLISHED APPROACH

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KEY POINTS

Using the goals-based investing (GBI) approach will increase client acquisition, client retention and client satisfaction

Now is the time to begin integrating GBI into your advisory practice due to the forecasted economic and market environment

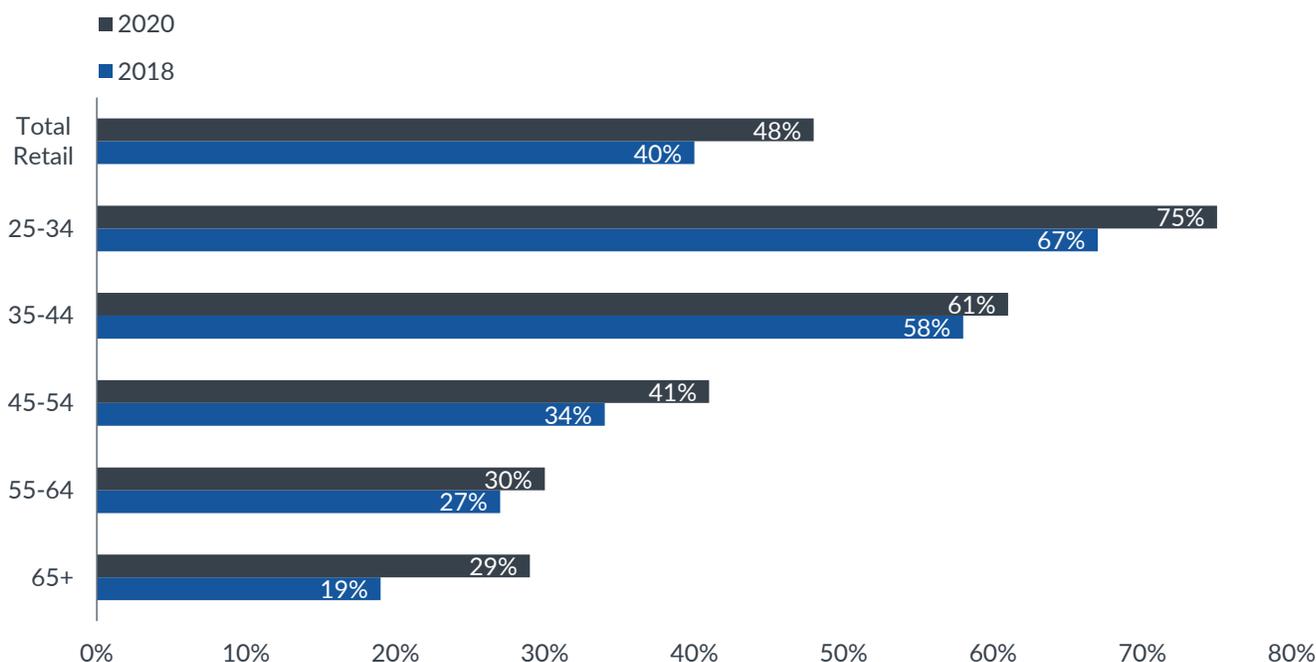
CNR is leading the market in the approach, tools and people to integrate GBI into portfolio construction and portfolio management

Only 44% of high-net-worth (HNW) clients “trust their advisors enough to take their guidance at face value,” and fewer still, only 26%, feel “they are getting enough information from their advisor,” according to a recent SEI and Financial Planning Association Survey¹. While stated satisfaction levels remain high, north of 80%, discerning advisors will see the underlying truth. Retention is key, and if investors find more trusted and transparent financial guidance elsewhere, the risk to advisors is clear.

What do we see when we read the tea leaves? We see an investor base that is yearning for an infusion of personalized, goals-based strategies to elevate their advisory experience, as well as their realized results. Yearning for solutions that optimize multiple dynamic goals, each with distinct time horizons and differing levels of importance. Yearning for clear probabilities of achieving each goal and suggestions to improve those chances. Yearning for a partner that will provide ongoing insights on the progress toward each goal. And it’s not just us, according to CFA Institute’s 2020 Trust Report, 77% of investors express an interest in personalized products and services. What’s more, the percent of investors willing to pay more for that personalization is growing as well.

EXHIBIT 1

Retail Investors Willing to Pay More for Personalized Products or Services (by Age)



Percentage of investors interested in more personalized products (77% in 2020) multiplied by percentage of those investors willing to pay more for personalization (62% in 2020).

Source: CFA Institute’s 2020 Trust Report.

At City National Rochdale, we have a long history of partnering with independent Financial Advisors to deliver Intelligently PersonalizedSM Portfolios for their clients. We never build portfolios based on models that force clients into predefined categories. Rather, we develop customized and dynamic allocation strategies built with a strong preference to the use of individual securities. These allocations are carefully implemented and actively managed to meet client-specific needs relative to risk tolerance, tax management, income needs and many other factors. Our commitment to this customization remains unwavering, and our desire to lead the industry in this regard is steadfast. To do so, we firmly believe now is the time to engage even more deeply with goals-based investing in a way that drives greater Intelligent Personalization into our processes and improves advisors’ client acquisition, satisfaction and retention levels as a natural consequence.

Together we will review:

SECTION 1: Defining the Goals-Based Investing Approach. Its History. Its Difference.

SECTION 2: Why Now Is the Time to Begin Integrating Goals-Based Investing into Your Approach

SECTION 3: How CNR Is Leading the Industry. The Approach. Our Tools. Your Impact.

Defining the Goals-Based Investing Approach

Behavioral finance is the study of why seemingly rational investors often make seemingly irrational decisions about their investments. At its core is the work of Kahneman and Tversky, who exposed people's asymmetrical view of risk – they fear losses twice as much as they enjoy gains. But while behavioral finance describes many different types of mistakes made by investors and their advisors (overconfidence, anchoring, regret aversion, etc.) it does not address how to incorporate it into investment management. Enter goals-based investing.

What is goals-based investing? Put simply, it's an investment approach focused on the individual investor's ability to meet future personal financial goals. It's the discipline of applying different investment strategies and risk profiles behind specific goals, based on their respective importance to the investor, their time horizons and the financial resources required to realize them. In so doing, the client becomes more focused on how performance results correspond to the achievement of their goals rather than on market fluctuation. Further, investors and advisors alike become less influenced by their cognitive and emotional biases (e.g., loss aversion bias, confirmation bias, etc.) and increasingly drive financial decisions around tangible goals and goal attainment, according to a 2004 goals-based investing piece by the CFA Institute². It leads to discussions with clients less in terms of risk and return and more in terms of dream and nightmare scenarios. Dialogue becomes more relatable to most clients, thus improving client engagement, satisfaction and retention as a result.

In the end, goals-based investing – as opposed to investment style, risk profile or market exposure – keeps the focus of both investment advisor and investor squarely on what matters most to the investor, increasing the likelihood of reaching their goals.

Why Now is the Time to Integrate Goals-based Investing into Your Approach

It is too simplistic to argue that goals-based investing strategies alone appear to consistently yield materially better absolute returns over time. Rather, goals-based investing coupled with the benefits of an active portfolio management strategy that is truly personalized to one's goals is the differentiator. We have entered a new period with an expectation of prolonged low interest rates and reduced growth expectations, making the ability to replicate historical passive returns within the same risk tolerance more challenging. For financial advisors who make goals-based investing a core to their approach, it can serve as a clear differentiator when it comes to winning and retaining high-net-worth business.

Additional benefits are plentiful, and they include those listed below.

FOCUSING ON GOALS DRIVES INTENTION

A clear benefit of this approach is its unwavering focus on the individual investor's end goals. What the process does is encourage a conversation and deep thinking around the topics of: What do you want to achieve for yourself and your loved ones? What is the timeline for each? What is the relative priority of each? These are challenging topics, but honestly contemplating and prioritizing them very efficiently puts one's entire financial future in focus. And studies³ have suggested that with that focus comes intentional decision-making in our day-to-day lives. If the goal is a down payment on a house, one is less likely to spend money on a motorcycle or a fancy dinner, as those would delay the realization of the very real and tangible goal of a house, as opposed to extra money in an account many years from now. The reverse is also true: If the goal is many years down the road, one is less likely to overreact to a short-term market dip and sell out one's position.

ACTIONS TAKEN ARE MEASURED AND MULTIFACETED

Further, this approach unlocks a very measured and strategic investment approach, unique to the realities of each goal. No longer does one take a blanket approach to one's risk profile, but rather that profile is nuanced to the specifics of each goal. The incremental layer of planning by goal has two beneficial side effects. First, investors and their advisors find themselves deploying a dynamic asset allocation that is curated to help meet each client's multidimensional goals rather than a one-size-fits-all risk profile. Planning to a deeper level of specificity drives a wider range of potential solutions to enter the decision set. Second, the level of assumed risk is 'right-sized' to the magnitude, importance and timing of the goal. When end investors gain comfort with 'right-sized' risk, they invariably gain confidence in reward estimations and timelines as well.

MUTUAL ENGAGEMENT DRIVES SATISFACTION AND SHARED PURPOSE

A natural consequence of goals focus is deeper investor engagement. Goals-based investing requires more conversation, buy-in and engagement from the end investor engaging more regularly with their advisors as goals, market conditions, or their underlying investment principles change. That process ensures that investment strategies are dynamic and customized to the individual. A further benefit is improved client satisfaction and longevity of advisor relationships as the advisor value-add becomes increasingly apparent. Ultimately, when the end investor sees their investment choices and strategies in the appropriate light, they tend to also see market ups and downs in the appropriate light.

How CNR is Leading the Industry, Seeing the Opportunity with CNR

Many investment managers describe the merits of a goals-based investing approach, but few can deliver the collaboration, portfolio personalization and experience that the CNR team brings to advisors and their clients.

The CNR approach is built on **a commitment to collaboration and client outcomes**. Our philosophy is clear. Our client is you, the advisor. We recognize that your client is the end investor. We focus on delivering the level of partnership and support that best fits into your existing business style and approach, and seek to elevate the total experience in as seamless a fashion as possible.

Advisors have found that this approach enables them to leverage CNR expertise and support as much, or as little, as the individual client relationships demand. This enables advisors to shift some focus away from these specialized topics where CNR has a clear skill set, and opens incremental bandwidth to grow their broader practice.



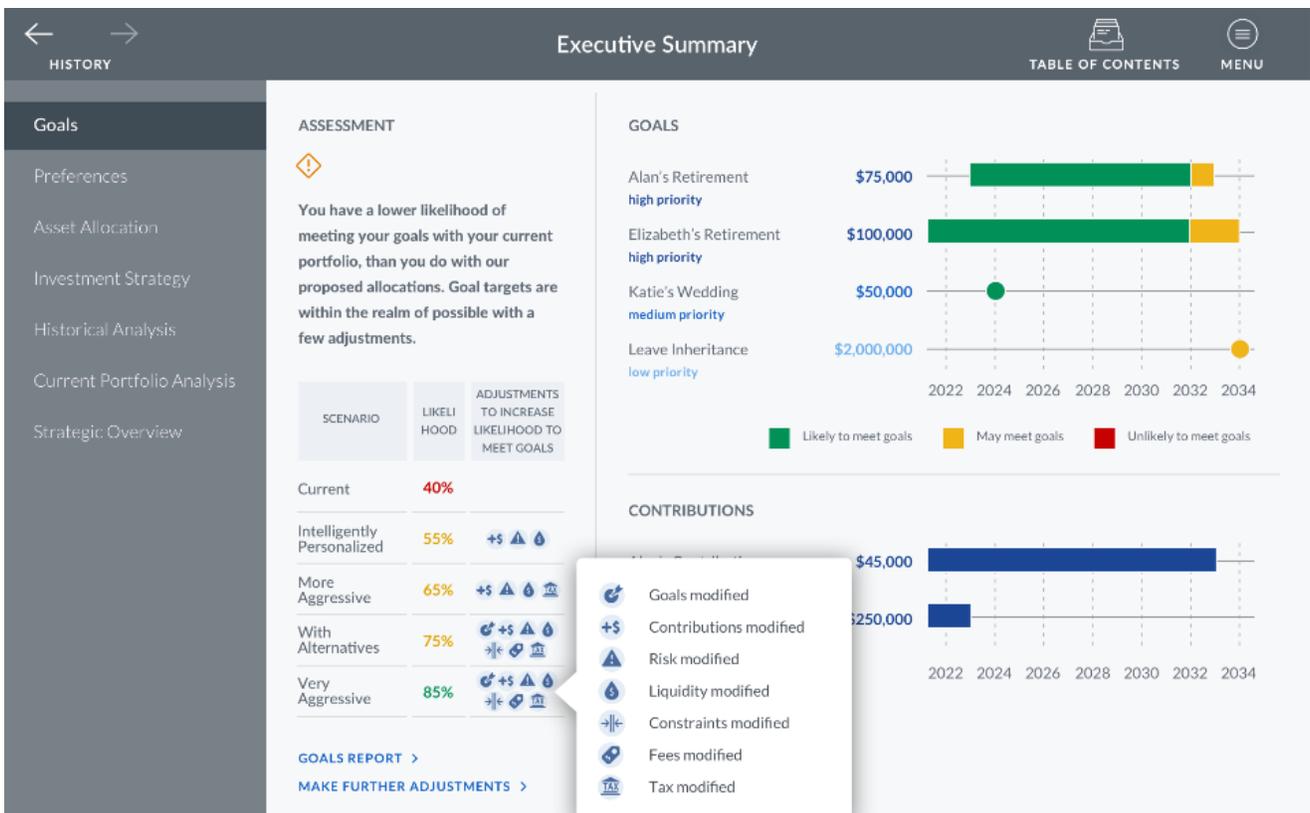
Expertise, certifications and credentialing abound in the financial services sector. Building from the expertise of our Investment Strategy Committee to the broad CFA credentialing of CNR team members, the CNR team brings an unparalleled level of expertise and experience to all engagements, even amongst its peer set. What really sets the CNR team apart, however, is their ability to marry CNR's expertise with the advisor's understanding of the investor's goals to **develop and deploy highly personalized portfolio strategies**. Many firms prioritize aligning investors to predefined investment models. CNR adheres to a belief that no two investors are created equal. As such, we develop customized and dynamic allocations that leverage a broad range of asset classes and types, and which are carefully implemented and actively managed to help meet client-specific situations relative to risk tolerance, income generation, tax management and many other factors. For some this will resonate as a continuation of the relationship you already know with CNR; for others, it represents an opportunity for incremental value-add and investor personalization.

Further, the commitment of CNR to continuously develop new insights and capabilities has unlocked an even deeper level of precision. We have long been a beacon for best-in-class portfolio insights, but through technology enablement and the critical-thinking skills of the CNR team, we now have new capabilities that provide multi-variable analyses that can consider aspects of risk/volatility, liquidity, tax sensitivities and constraints at an even greater level of depth.

In the hands of advisors these tools will make complex topics and intricate financial details more relatable to end investors. The important step of advisors and investors sitting together to discuss and define personal goals and their timelines remains unchanged and continues to be value-add. What is augmented to that experience with this tool is advisors’ ability to convert that conversation in the moment to personalized visuals and analytics detailing the investor’s goal attainment probability, interdependencies and other tangibles that take the conversion from theory to reality. Perhaps the best way to illustrate the refresh is to present a couple of key examples that showcase the expanded toolkits.

Consider, for example, the ability to review with investors one cohesive view of their financial goals, detailing not only the various goals and their respective financial needs and time horizons, but the probability of attaining them and clear action plans to increase their certainty. In all likelihood it’s not that this information had not been reviewed with investors, but unlikely as cleanly, seamlessly and coherently.

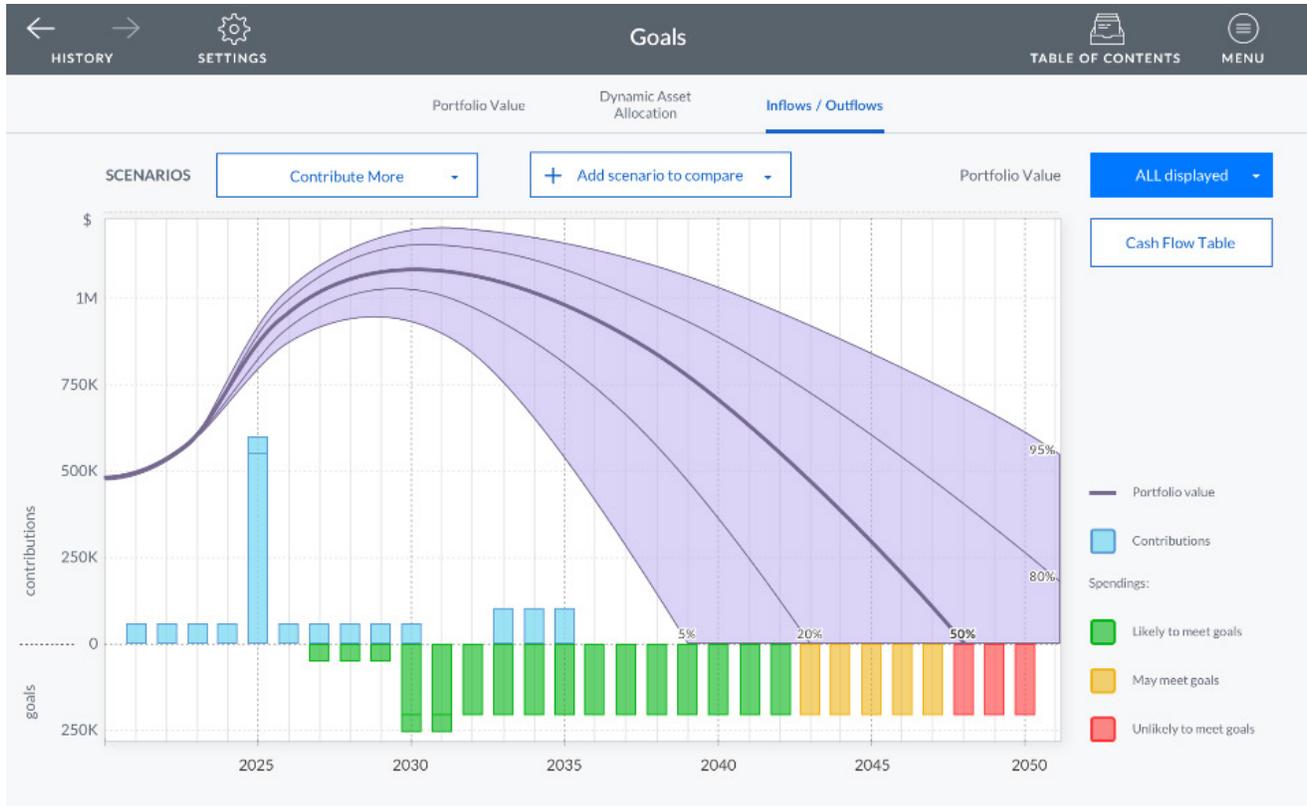
EXHIBIT 3



Source: City National Rochdale.

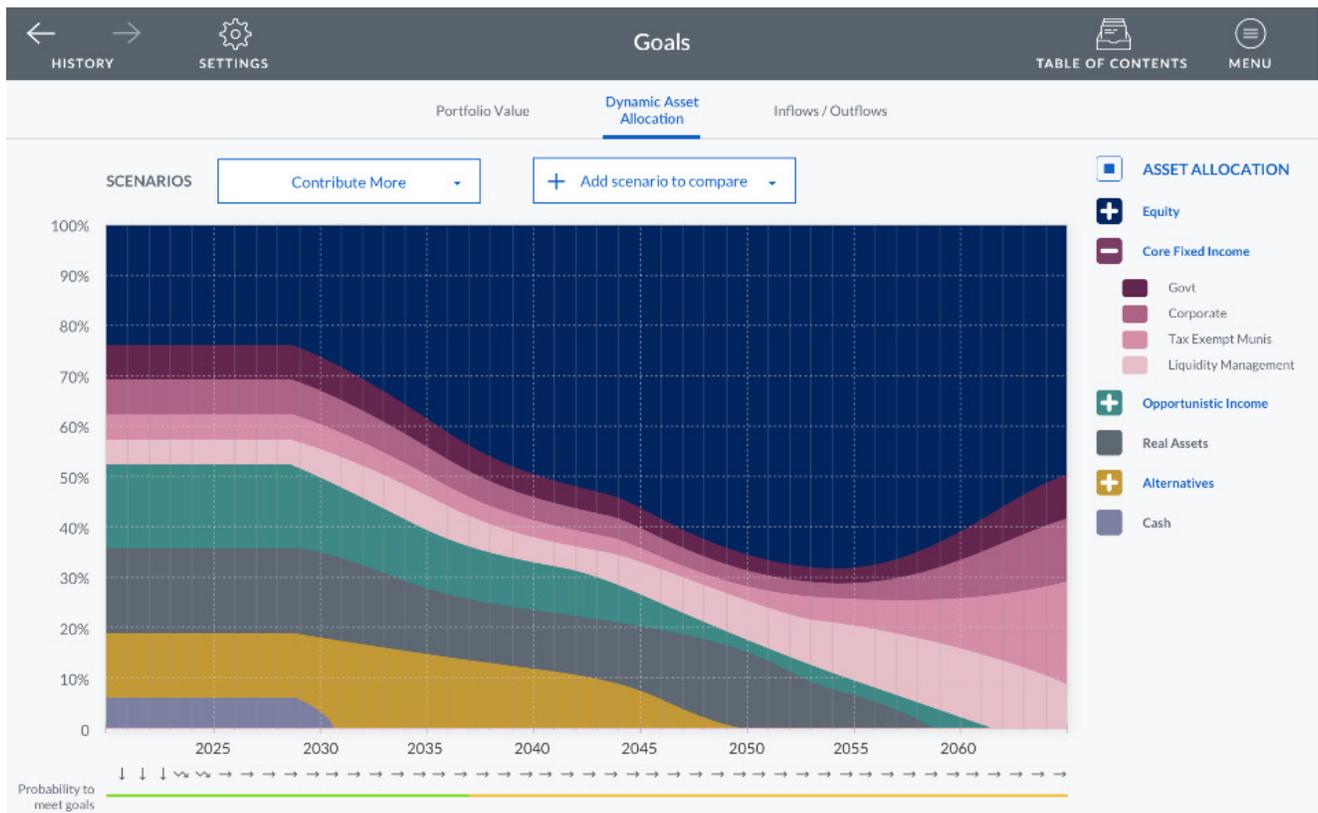
What separates these new tools is not just the breadth of insight they illustrate for investors but also their depth. With these tools investors and advisors alike can quickly double-click on the specifics of the probability of reaching their goals, with clear visual of the glide path of the portfolio value as well as allocations, values and shifts in the portfolio over time.

EXHIBIT 4



Source: City National Rochdale.

EXHIBIT 5



Source: City National Rochdale.

With this level of detailed information in their hands, investors clearly see the delivered value, and it often spurs additional questions and what-ifs. To that end, the CNR team has also created a robust Scenario Planning Tool that can be used together with investors to create, model and refine scenarios of interest. Such a dynamic and robust tool in the hands of advisors is truly unparalleled in its ability to drive both investor engagement as well as confidence.

EXHIBIT 6

Scenario Editor
Last updated by adawoodi on Jul 16, 2020

View PDF

View Interactive

Edit All Scenarios

ORDER	GOALS MET	NAME		GOALS	CONTRIBUTIONS	RISK	LIQUIDITY	CONSTRAINTS	TAXES	DELETE	
1		Current Scenario <i>Static Asset Allocation</i>	Same as Proposal Request Data								
2		Dynamic Asset Allocation <i>Dynamic Asset Allocation</i>									
3		Contribute More <i>Dynamic Asset Allocation</i>		 Modified							
4		Reduce Spending <i>Dynamic Asset Allocation</i>	 Modified	 Modified							
5		Intelligently Personalized <i>Dynamic Asset Allocation</i>			 Modified	 Modified	 Modified				

[Reset Scenarios](#)

[Refresh Assumptions](#)
Last refresh on Jul 16, 2020

[Refresh Holdings](#)
Last refresh on Jul 16, 2020

[Refresh Market Data](#)
Last refresh on Jul 16, 2020

Source: City National Rochdale.

Finally, our risk management focus extends into the areas of tax management/mitigation and portfolio downside protection. And while these subjects are covered extensively in other CNR materials, they undoubtedly add further value to our goals-based investing playbook. Unraveling the tax impact of unrealized capital gains, executing proactive tax loss selling, and strategically positioning the optimal asset classes in the right account registration all consistently benefit overall portfolio performance. Raising cash and adopting a more defensive portfolio allocation during times of heightened volatility and downside risk has also added value and client confidence.

Taken together, the collaboration between investors, advisors and CNR represents a true unlock in the realization of personal financial goals in any economic environment. This collaboration and active portfolio management consistently drives improved client satisfaction levels and higher client retention levels. As an advisor, these benefits of collaboration and improved satisfaction and retention all come at no incremental cost to you.

This approach to doing business represents a meaningful improvement to the well-trod territory of goals-based investing.

Intelligently Personalized. Intentionally Implemented. Collaboratively Managed. That Is the Power of Goals-Based Investing the CNR Way.

To learn more contact your Senior Investment Consultant or Portfolio Manager, visit us at CNR.com, or email us at info@cnr.com.

¹<https://www.fa-mag.com/news/advisors-to-hnw-clients-have-high-standards-to-meet-42294.html>

²<https://www.cfainstitute.org/en/research/cfa-digest/2004/08/goals-based-investing-integrating-traditional-behavioral-finance-digest-summary>

³https://www.researchgate.net/profile/Greg_Davies/publication/288984454_A_Behavioral_Perspective_on_Goal-Based_Investing/links/5687c9cf08ae1e63f1f70684/A-Behavioral-Perspective-on-Goal-Based-Investing.pdf

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Past performance is no guarantee of future performance.