

Asset Allocation: Plan Level, Goal Level, and Scenario Level

Functions Addressed in this Document:

- How does NaviPlan[®] determine the investor profile and suggested asset mix at the plan level?
- How can the suggested asset mix be overridden for a specific goal?
- How can the suggested asset mix be overridden for a scenario?

A portfolio's asset allocation has a significant effect on a portfolio's performance. Asset allocation is the process of aligning the clients' risk tolerances, financial objectives, and time horizon with their investment portfolio. The basic premise of asset allocation is that, by diversifying investments over a number of different assets and asset classes, clients can reduce their risk for their entire portfolio while maintaining desired long-term return rate expectations.

NaviPlan[®] offers a choice of asset allocation models, including the Morningstar model, that allows you to use actual Morningstar return rates in NaviPlan's calculations. Because one allocation or investment profile may not meet all the clients' needs, NaviPlan[®] offers the ability to designate a separate asset allocation for each goal, as well as for a particular scenario.

This document uses the Morningstar asset allocation model in a **Level 2 Plan** with the **Asset Allocation**, **Retirement**, and **Education** modules selected.

How does NaviPlan[®] determine the investor profile and suggested asset mix at the plan level?

Asset allocation is determined by completing the plan-level questionnaire (**Plan Management – Asset Allocation – Questionnaire**). The questionnaire includes eight questions: two related to time horizon and six related to risk tolerance. Based on the clients' responses, NaviPlan[®] separately scores the clients' time horizon and risk tolerance, and based on this scoring, recommends an investor profile and time horizon, including a suggested asset mix, to ensure the appropriate asset allocation.

After answering the questionnaire, the **Profile (Plan Management – Asset Allocation)** displays the suggested asset mix and investor profile, including an overview and summary of the portfolio. Unless overridden, the investor profile and asset mix serve as an asset allocation target for all goals and scenarios, excluding the current plan scenarios.

DID YOU KNOW? You can click **Customize Asset Mix**, then select **Weightings (Plan Management – Asset Allocation – Profile** page), allows you to override the suggested asset mix or asset class weightings of the proposed investor profile.

To understand asset allocation at the plan level, let's look at the following sample plan:

David and Susan are in their late thirties and have two goals: retirement and education. They plan to retire in 2035 when David is 65 years old. They are funding their retirement goal using David's RRSP and Susan's RRSP. They are funding their daughter Julia's education goal using a RESP account. She plans to attend college beginning in 2016.

Suggested Asset Mix	
Canadian Large Cap Equity	7.00%
US Equity	7.00%
International Equity	6.00%
Canadian Bonds	57.00%
Global Bonds	16.00%
Canadian Cash Equivalents	7.00%
Summary	
Expected rate of return	3.36%
Expected standard deviation	
Proposed investor profile	
Proposed time horizon	
	<div style="border: 1px solid #ccc; padding: 5px; width: fit-content;"> <p>Weightings...</p> <p>Optimize...</p> <p>Revert to Defaults</p> <p>Customize Asset Mix ▼</p> </div>

Plan Management — Asset Allocation — Profile

Based on David and Susan's responses to the plan-level questionnaire, their investor profile is **Aggressive**. Unless overridden, this **Aggressive** profile will be the asset allocation target for their retirement and education goals.

Additionally, this **Aggressive** investor profile will also be the default asset allocation target for any new goals added to the plan, as well as any accounts not allocated to goals.

DID YOU KNOW? When the responses to questions 1 and 2 (which are related to time horizon) reveal a short time horizon, more aggressive portfolios are not recommended.

Recommended Plan	Alternative Plans
<p>Alternative 1</p> <p>Edit</p>	<p>Reallocate ▾</p> <p>Edit</p> <p>Recommend</p> <p>Delete</p>

Results — Analyze Goals — Scenarios

By default, the **Scenarios** page (**Results** section - **Analyze Goals**) contains a system-generated, What-if scenario called **Recommended Plan**, which reallocates the goal's funding accounts to the proposed investment profile. You can modify all settings (including the **Investment Profile**) in any scenario, except the **Current Plan** scenario, by clicking **Edit Recommended Plan**. This allows you to perform What-if analyses and create an optimal scenario that will help your clients achieve their goals.

Investment Objective

Investment Objective	Investment Profile
Pre-retirement <input type="checkbox"/>	Aggressive
Retirement <input checked="" type="checkbox"/>	Aggressive ▾

- Current - Rebalanced
- Current - Not Rebalanced
- Conservative
- Moderate Conservative
- Moderate
- Moderate Aggressive
- Aggressive

Results — Analyze Goals — Scenarios — Edit <plan> — Retirement — Objectives

Looking at David and Susan's retirement goal, we see that in the **Recommended Plan** scenario, NaviPlan[®] has adjusted the asset mix of the accounts funding the goal (i.e., David's and Susan's RRSP accounts) to the **Aggressive** investment profile, thus achieving 100% goal coverage in retirement.

In NaviPlan[®], timing of the reallocation of the asset mix of accounts linked to goals differs. For education and major purchase goals, this reallocation occurs at the plan date. For pre-retired clients, reallocation occurs twice—once as of the plan date, then again at retirement—so that an appropriate profile can be recommended for each period.

How can the suggested asset mix be overridden for a specific goal?

Since time horizon and risk tolerance are major components of asset allocation, it is likely that goals with different time horizons or objectives will require different investment profiles. The need for a different investment profile for a particular goal often occurs for clients in pre-retirement as their retirement goal may not begin for 20 years or more, but their children's education goal may start in five years.

In most cases, clients complete the plan-level questionnaire based on their retirement goal, but it is unlikely that their responses would be the same for their children's education goal. For this reason, NaviPlan[®] offers the ability to override the questionnaire responses for specific goals including education and major purchase, by clicking **Asset Allocation** from the **Set Goals – Education** or **Major Purchase**.

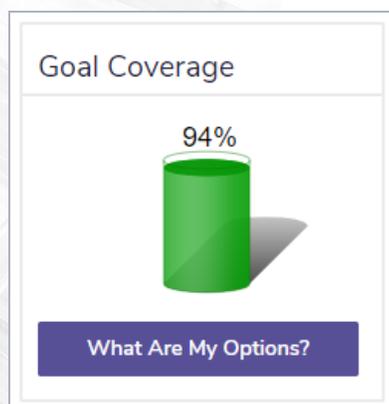
When changes to the goal-level questionnaire result in the recommendation of a different proposed investor profile, NaviPlan[®] only applies these changes to that particular goal, or more specifically, to the accounts linked to that goal. To see how the plan-level asset allocation can be overridden at the goal level, we will return to David and Susan's plan.

Click **Modify Questionnaire** on the **Asset Allocation Details** screen (to access, click **Asset Allocation** from the **Set Goals – Education**), the **Questionnaire** opens and displays their responses to the plan-level questionnaire. David and Susan want to change some of the responses they selected for their retirement goal when planning for Julia's education goal. Their responses can be overridden by selecting the option beside a question, and then selecting a response appropriate for Julia's education goal.

Because Julia will attend college in less than 10 years and is expected to attend for four years, for this goal David and Susan have changed their responses in questions 1 and 2 (which determine time horizon), as well as some of their responses in questions 3 through 8 regarding risk tolerance.

After updating the responses to reflect the new time horizon and risk tolerance for the education goal, the investment profile has changed from **Aggressive** to **Conservative**. Remember that changing the investment objective to **Conservative** only applies to accounts funding Julia's education goal, in this case the RESP plan account; it does not apply to the accounts funding David and Susan's retirement goal.

Looking at Julia's education goal in the **Recommended Plan** scenario, we see that NaviPlan[®] has adjusted the asset mix of the accounts linked to this goal to the **Conservative** investment profile. This change in investment profile has resulted in a reduction of the goal coverage to 95% for the **Recommended Plan** scenario.



Investment Objective

Investment Profile

Conservative

Results — Analyze Goals — Scenarios — Edit <plan> — College Education

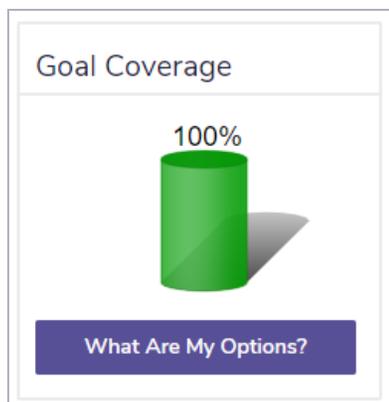
While David and Susan would prefer to take a conservative approach to the asset allocation for Julia's education goal, after reviewing the options presented under **What Are My Options?**, David and Susan realize that a conservative asset allocation would require them to either reduce the education goal expenses or make additional savings. Since neither of these options appeal to them, they want to look at a different asset allocation strategy that would increase goal coverage.

How can the suggested asset mix be overridden for a scenario?

What-if scenarios are fully editable and include the ability to override the **Investment Objective**. When overridden, the newly selected investment objective only applies to that scenario and is only reflected in output when the scenario is marked as **Recommended**.

In the plan for David and Susan, the investment objective for all What-if scenarios for Julia's education goal defaults to **Conservative** because it is based on the questionnaire answers that were changed specifically for Julia's education goal.

Select the option beside **Investment Objective** to select a different investor profile (in this case, **Moderate**), which increases goal coverage back to 100%. Since David and Susan are comfortable with this new asset allocation for the account funding the education goal (the RESP plan account) and the increase in goal coverage, they have decided to mark this scenario as **Recommended**.



Investment Objective

Investment Profile

Moderate

Results — Analyze Goals — Scenarios — Edit <plan> — College Education