# Asset Allocation and its Effects on Client Reports

Functions Addressed in this Document:

- What is the difference between the suggested asset mix and the assumed asset mix, and when is the assumed asset mix shown in reports?
- What information does the **Appendix – Asset Allocation Modifications** output page display?
- What is included in the Entire Portfolio asset mix?
- Why do the rates of return differ on the **Profile** page from the entire portfolio rate displayed in client reports?
- When and where would NaviPlan® show pre-retirement and retirement asset mixes?
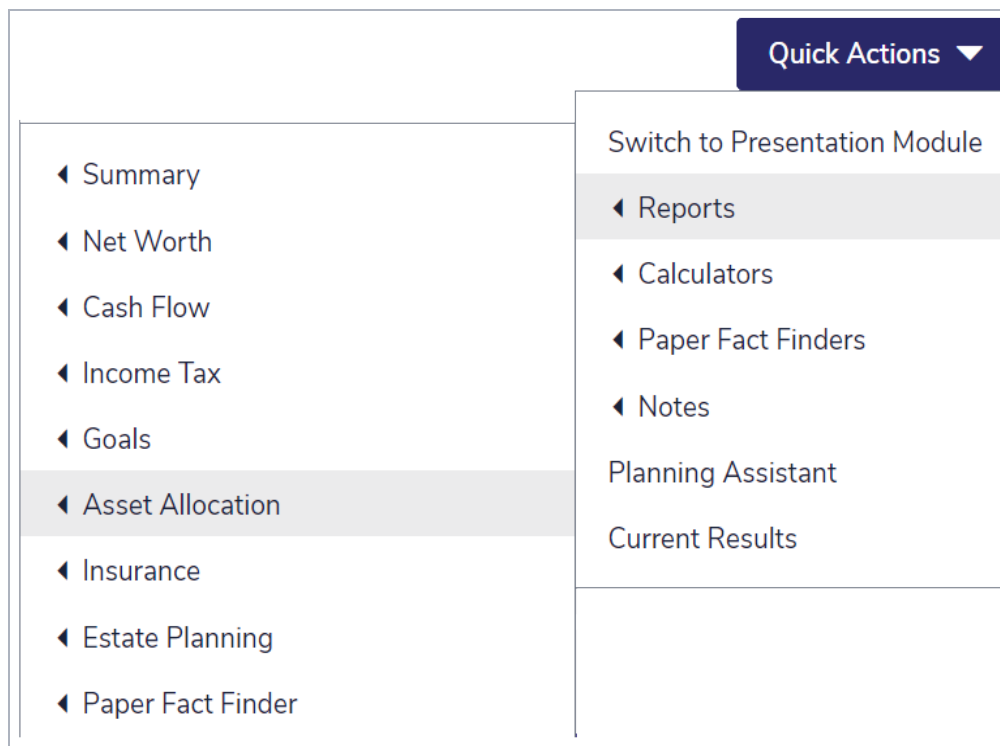
Quick Actions – Reports – Asset Allocation

Determining your client's investor profile is a key component in determining their asset allocation, which ultimately will be a critical factor in whether or not the client achieves their financial goals. For this reason, by default, the recommended and alternative scenarios in NaviPlan® reallocate the goal's funding accounts to match the clients' investor profile. For retirement, education, and major purchase goals, reallocation occurs as of the plan date. For clients who are not yet retired, the reallocation of retirement accounts occurs at the plan date and again at the account owner's retirement.

NaviPlan® provides various reports to assist you in analyzing your clients' asset allocation calculations. While this functionality is available in both Level 1 and Level 2 Plans, the remainder of this document will focus on the **Asset Allocation** reports (accessible from the **Quick Actions – Reports**) and the client reports available in a **Level 2 Plan**.

When creating a financial plan, you begin by modeling your clients' current scenario, which is reflected in NaviPlan® and in reports as the current asset mix. Once an investor profile has been selected from the menu (**Plan Management – Asset Allocation – Profile**), this investor profile is used to determine the suggested asset mix for the plan. For the retirement, education, and major purchase goals, NaviPlan® automatically reallocates your clients' current portfolio to match the suggested asset mix in the recommended plan scenario.

What is the difference between the suggested asset mix and the assumed asset mix, and when is the assumed asset mix shown in reports?

The suggested asset mix is an allocation of recommended investments that is more closely aligned with your clients' investment goals as determined by their risk assessment and investment objectives. The assumed asset mix represents a modified version of the suggested asset mix used in your recommendations.

The assumed asset mix is shown when the suggested asset mix no longer applies. The suggested asset mix no longer applies when the investment profile has been overridden in the **Scenario Manager** (**Results – Analyze Goals – Edit/Review <scenario> Plan**).

Looking at the **Asset Class Reallocation** report for the retirement goal we can see how NaviPlan® analyzes the current asset mix and recommends the changes required to achieve the suggested asset mix for these clients.

Asset Class Reallocation
Plan - All Retirement Goals

Asset Class	Current Asset Mix (%)	Current Asset Mix ($)	Change (%)	Change ($)	Suggested Asset Mix Pre-Retirement (%)	Suggested Asset Mix Pre-Retirement ($)	Suggested Asset Mix Retirement (%)
Canadian Large Cap Equity	33.34	50,000	-7.34	-11,000	26.00	39,000	20.00
Canadian Small Cap Equity	33.33	50,000	-28.33	-42,500	5.00	7,500	3.00
US Equity			+29.00	+43,500	29.00	43,500	18.00
International Equity	33.33	50,000	-12.33	-18,500	21.00	31,500	14.00
Emerging Markets Equity			+9.00	+13,500	9.00	13,500	5.00
Canadian Bonds			+8.00	+12,000	8.00	12,000	29.00
Global Bonds			+2.00	+3,000	2.00	3,000	9.00
Canadian Cash Equivalents							2.00
Total	100.00	150,000	+0.00	+0	100.00	150,000	100.00

Asset Class Reallocation report

DID YOU KNOW? It is important to note that when the **Hold %/$** feature has been applied to either an account or a holding, the value held will not be reallocated. This may result in the creation of an assumed asset mix.

Example #1: Robert and Sarah are in their forties and have a moderate investor profile. When analyzing their education goal, we can see that their son Marc will be able to attend either university in 2020, which is a considerably shorter time horizon than their retirement goal. Modifying the investor profile for the education goal to a conservative investor profile will more closely align the clients' asset allocation with their goals.

Description *	Member	Start Age/Year	Infl +/- Add'l	Annual Cost	Years	Projected Cost	
University Education	Matthew ▾	18 2020	☑ + 2.00%	$6,125 🔍	4 =	$27,719	⊙ ✎ ⇆ ✕

Set Goals - Education

You can click **Asset Allocation** for an education goal on the **Education** page to see the currently assigned asset mix for that goal. Select the **Override Investor Profile** option to select a different investor profile for the goal.

What information does the **Appendix – Asset Allocation Modifications** output page display?

As seen in the previous example, NaviPlan® provides you with a warning any time the investor profile or asset mix is overridden within a plan. Because an incorrect investor profile can affect the rate of return, goal coverage, and subsequently the success of a plan, the **Appendix – Asset Allocation Modifications** section of the client reports reflects any changes made to the asset allocation within the plan. As previously mentioned, the suggested asset mix column heading is replaced with the assumed asset mix column heading within reports, and there is also a footnote on the **Asset Allocation** output page indicating the change and encouraging the reader to review the **Asset Allocation Modifications** output page.

What is included in the Entire Portfolio asset mix?

Entire portfolio is defined as a blended mix of all the assets linked to all the goals within the plan. You will see entire portfolio used in the following client reports:

- Asset Allocation
- Financial Needs Summary
- Financial Needs Analysis

Entire portfolio includes all accounts regardless of ownership. In each of the three applicable client reports, NaviPlan® includes the suggested asset mix details, including the weighted average rate of return (ROR). As explained in **Example #1**, NaviPlan® will provide additional details on the assumed asset mix within the client reports.

**Suggested Asset Mix
Current - Rebalanced**

Rate of Return	0.44%
Standard Deviation	1.50%
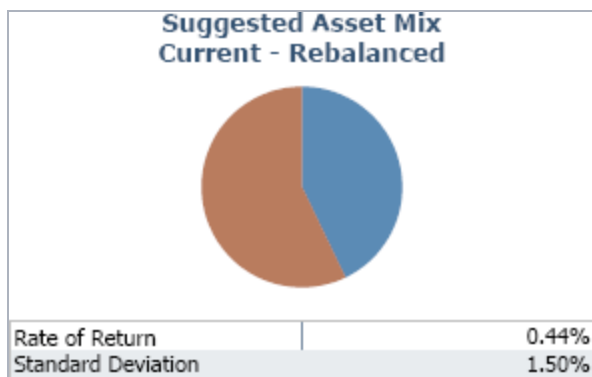
Asset Allocation client report

It is important to note that the entire portfolio will include the assets allocated to other goals. You can reconcile account values used in the client reports using the **Account summary** report (**Quick Actions – Reports – Net Worth – Accounts**).

Why do the rates of return differ on the Profile page from the Entire Portfolio rate displayed in client reports?

In NaviPlan®, the expected rate of return (ROR) for the investor profile is displayed on the **Profile** page (**Plan Management** – **Asset Allocation**) and is the default investor profile for each individual goal within the plan. Client reports, however, display the weighted average ROR for the entire portfolio (all goals combined). When the investor profile is maintained for each goal throughout the plan, the weighted average ROR remains unchanged and is displayed in the UI and client reports as the same value.

When the investor profile is overridden for any one of the goals, the return rate for that goal changes; therefore, the weighted average ROR for the entire portfolio must be recalculated and is displayed in client reports.

In addition, if the **Hold %/$** feature is used and this results in asset allocation percentages outside of the suggested asset mix, the weighted average ROR for all goals will be recalculated and displayed in client reports.

When and where would NaviPlan® show asset mixes?

Many clients will have a more conservative investor profile during the retirement period compared to the pre-retirement period. This change can be modeled in NaviPlan® in two locations:

- The **Asset Allocation Details**dialogue box, accessible from the **Set Goals** – **Retirement** – **Objectives** page by clicking the **Asset Allocation** button.
- Under **Investment Objectives**, accessible from the **Set Goals** – **Retirement** – **Scenarios** - **Objectives**.
  - This type of change to the investor profile will result in NaviPlan® using an assumed asset mix.

The asset mixes for the two planning time frames will be displayed within NaviPlan® at the following locations:

- In the **Asset Allocation Details** dialogue box, accessible from the **Set Goals** – **Retirement** – **Objectives** page by clicking the **Asset Allocation** button and by selecting one of the options under "Period".
- In the **Asset Allocation Recommendations for Retirement Goal** report (**Quick Actions** – **Reports** – **Asset Allocation** – **Recommendations for Retirement Goal**).
- In the **Recommendations for Complete Portfolio** report (**Quick Actions** – **Reports** – **Asset Allocation** – **Recommendations for Complete Porfolio**).