The Sail &
Anchor Decision

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THE RISK DECISION:
Risk It or None at All?

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QUBE WHITEPAPER

The Risk Decision: Risk It or None at All?

There is no doubt that bonds offer the role of an anchor for an investment portfolio.

Since the 1950s, we have been taught that portfolio diversification is a core principle of risk management that must be followed when designing a portfolio. But, how large of an anchor do you need?

A few years ago, I had the opportunity to live on a sailboat for a couple of weeks. Most days, the winds were light, and we did everything we could to squeeze a little more speed out of that boat. Rarely were we happy with the progress made, and many days felt like we were floating aimlessly on the ocean. Then, in the middle of one night, the winds whipped up to gale-force levels. Thankfully, we were anchored in the dark, but as the hours passed tensely towards the morning light, our eagerness for speed had ironically transitioned. Our lives literally depended on that anchor holding until we could see again.

The Sail & Anchor Decision

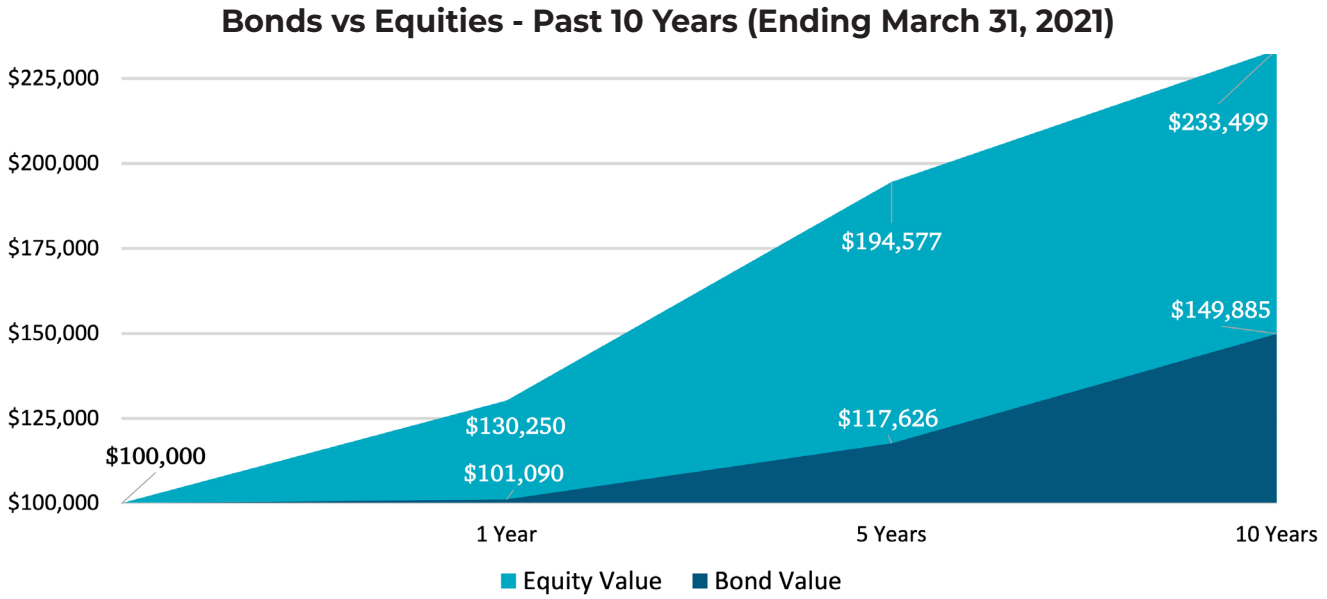
So, in our metaphor with bonds as the anchor, stocks will be the sails. Both are required to operate the boat, but if speed is on your heart, you will want the most giant sails possible and begrudgingly load the anchor onboard.

This is such a big decision, with such enormous consequences. Exposure to risk will be, most certainly, the most significant driver of your return.[1] A better return can mean the difference between retiring at 55 instead of 60 or leaving a legacy fund for the kids. An investor placing investments in bonds would have received only a 1.09% return over the past year (ending February 28, 2021), a 3.3% annual return over the past five years and only 4.13% annualized return over the past ten years.[2]

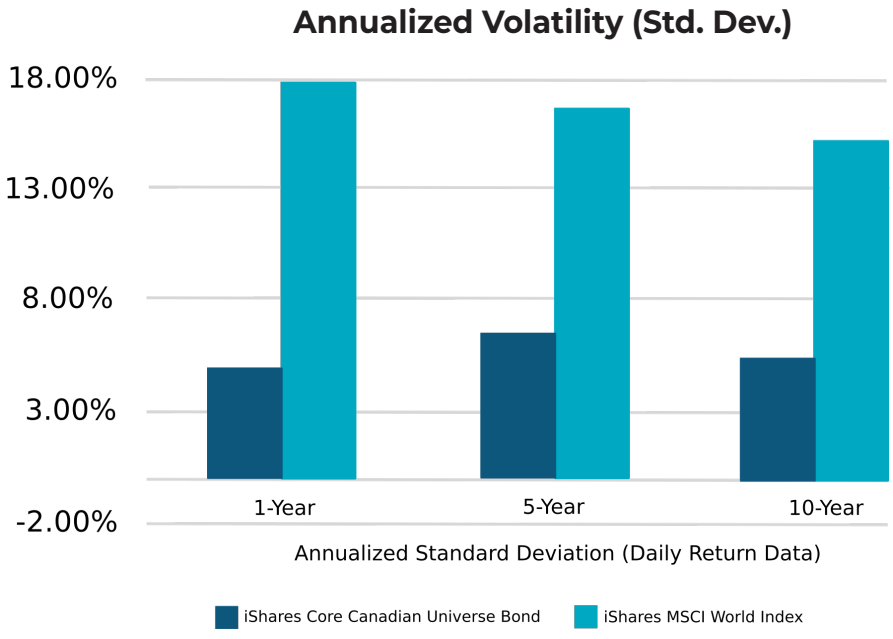
[1] Vangaurd, one of the largest passive investment managers in the world, has numerous reports that place the asset allocation decision at 85-90% of the explanatory variable in your total portfolio performance.
[2] The FTSE Canadian Universe Bond Index as of Feb 28, 2021.

This is not only depressing, but it's also detrimental to one's financial health. Had this investor instead placed these funds into a global equity index, the one-year return would have been 30.25%, the 5-year annual return 14.24% and the ten-year 8.85%.[3]

$100,000 invested here would have resulted in the following differentials:



The stocks would have driven the portfolio so much further, allowing it to more than double over the past ten years. On the other hand, the decision to hold bonds would have dramatically reduced portfolio volatility (risk). Equities have also delivered triple the volatility when compared to bonds, causing triple the drama. Such drama could have threatened one's resolve to stay the course (called decision reversal risk) or the portfolio's ability to deliver income when required, among other things.



[3] The MSCI AWCI (USD) as of Feb 28, 2021. Morgan Stanley All World Capital Index.

The risk decision could have either impoverished the investor with low returns or over-exposed the investor to risk. So, we need to seek a balance and expend some energy to ensure that we have the correct ratio of bonds to stocks; that the anchor is appropriately sized for our sails.

The risk decision could have either impoverished the investor with low returns or over-exposed the investor to risk.

Heuristic Heritage

Interestingly, such a significant decision has most often been made with "rules of thumbs", also called heuristics.

120-Age

For example, many advisors and investors will set equity risk using the "120-age" formula. Take your age and deduct it from 120 and use it to guide your stock market exposure. A 65-year-old would therefore take 55% equity exposure (120-65=55).

The 60/40 Split

Another common approach is to use a 60/40 split with 60% in equities and 40% in fixed income (bonds). Historically, this made sense as it matched the value of all global financial assets (60% stocks and 40% bonds). In recent years, the global bond market's size has increased disproportionally relative to the equity market, making the global index weighting 45% stocks and 55% bonds. Nonetheless, this 60/40 heuristic has been both popular and effective[4] until recently, at least.

If using a heuristic to decide the most critical factor on portfolio performance is inappropriate, then **how should the risk decision be made?**

Investment Governance

Risk management starts with good investment governance. It is a process that ensures all parties understand chosen risk levels, as well as the responsibilities and oversight delegated to the investment manager.

[4] Denis Chaves, Jason Hsu, Feifei Li and Omid Shakernia. The Journal of Investing, Spring 2011, 20 (1) 108-118.

For this to function best, the process starts with setting investment objectives. If the aim is to fund retirement, then a retirement plan can help quantify the required savings each year and the return needed on these investments to reach the goal. Here, accommodation can also be made for any investment constraints or preferences, while objectives should be reviewed and reconsidered regularly (no less than every three to five years).

Another critical piece of the investment governance is the Investment Policy Statement (IPS) which records the "Strategic Asset Allocation." This is the big risk decision under review in this paper and is the decision made by the client. Further, the IPS defines Tactical Boundaries that surround the Strategic Asset Allocation allowing the investment manager decision leeway.

Common Tactical Boundaries can include:
• Diversification requirements of the portfolio across the stock market sectors.[5]
• Consideration of basic ESG (Environmental, Social and Governance) factors before investing in company stocks.[6]
• Cash positions cannot exceed set thresholds.
• Bonds must have minimum credit ratings.

Reporting is another facet of investment governance, with regular performance reports (quarterly), rebalancing (semi-annually), and client update meetings (annually). Reporting allows an investor to maintain perspective on the risk decision, ensuring it remains current and relevant. An example of the Strategic Asset allocation is reported within the IPS, with rebalancing corridors, as follows:

Asset Allocation Guidelines			
	MIN	MAX	TARGET
Equities	50%	90%	70%
Fixed Income	0%	50%	30%
Cash	0%	20%	0-20%
Expected Return***			8.3%

The "Expected Return" helps set investor expectations and is updated based on a mix of our Capital Market Expectations and historical results.[7]

[5] There are now 11 market sectors and our IPS requirements typically require exposure to the majority of sectors that are at least 5% of the market (a couple of sectors are insignificantly small).
[6] Qube both scores potential companies it wishes to invest in and offers our ESG analysts the opportunity to veto a buy decision should the company have a substandard ESG profile.
[7] See our recent Paper on Capital Market Expectations, "A Market Bubble in 2021, Why Not".

Asset Allocation via Traditional Finance

One place to seek meaningful guidance on the risk decision is the approach taken by traditional finance. This perspective focuses on the investments under consideration, their expected returns and related volatility (risk). This is the traditional "risk-return perspective" that you may have heard about from time to time.

Traditional Finance defines risk as price volatility (price swings).[8] Volatility can be problematic as it may disrupt access to funds when the investor requires it (called a liquidity issue). For many investors, liquidity is not a concern, as investments are set aside for many years (retirement) without the need for access. So, volatility risk manifests itself mainly as a psychological challenge. A psychological issue caused by volatility is the dreaded "Decision Reversal Risk," or panic selling. Deciding to sell investments at the worst possible time to then miss getting back in when the markets rebound.

A core psychological issue of volatility is "Decision Reversal Risk," or panic selling.

Investors are not concerned about all price swings. When investment prices swing up, happiness ensues. It is the downswings that cause concern. In that case, we could then extend the traditional definition of risk by only looking at semi-variance (downside volatility) or other similar measures like VAR (value at risk) or drawdown (the time it takes to recover from downswing events). All are worthy concepts to consider in the risk decision, academically at least, but none offer more than marginal contributions to the actual risk decision. So, keeping it simple and working with general volatility (up and down) is best.

Traditional Finance tends to view humans as rational computers and has been challenged most often for this failing. In a rare exception, Traditional Finance measures a very key human trait called "Risk Aversion" in its approach to the risk decision. Risk Aversion is our human trait of disliking starvation.[9] Each of us, in theory, has an upper limit on risk and our willingness to, in effect, risk financial ruin/starvation. If you have ever filled out an investor profile questionnaire or participated in a "KYC" discussion with an Investment Counselor, your risk level has been assessed and probably measured. Traditional Finance converts this assessment into a variable called "Lambda" and uses it when blending optimal trade-offs between risk and return.

[8] When market prices swing down, investors become very unhappy.
[9] See our 2020 Year-End Commentary article, "Time to Celebrate Uncertainty Again?" for more discussion on this.

Here is where Traditional Finance gets interesting. Ideally, we would pick the one investment we feel has the most significant potential gain, but that would concentrate risk on only one egg. As we expand our investors' investment choices, we gain maximum diversification by seeking investments that are "anti-correlated," which is an invented term for investments behaving differently from each other. In this case, when one is going down in value, the other might be going up. Anti-correlation mutes the volatility, offering more return for less risk. Risk-Averse humans, therefore, love anticorrelation.

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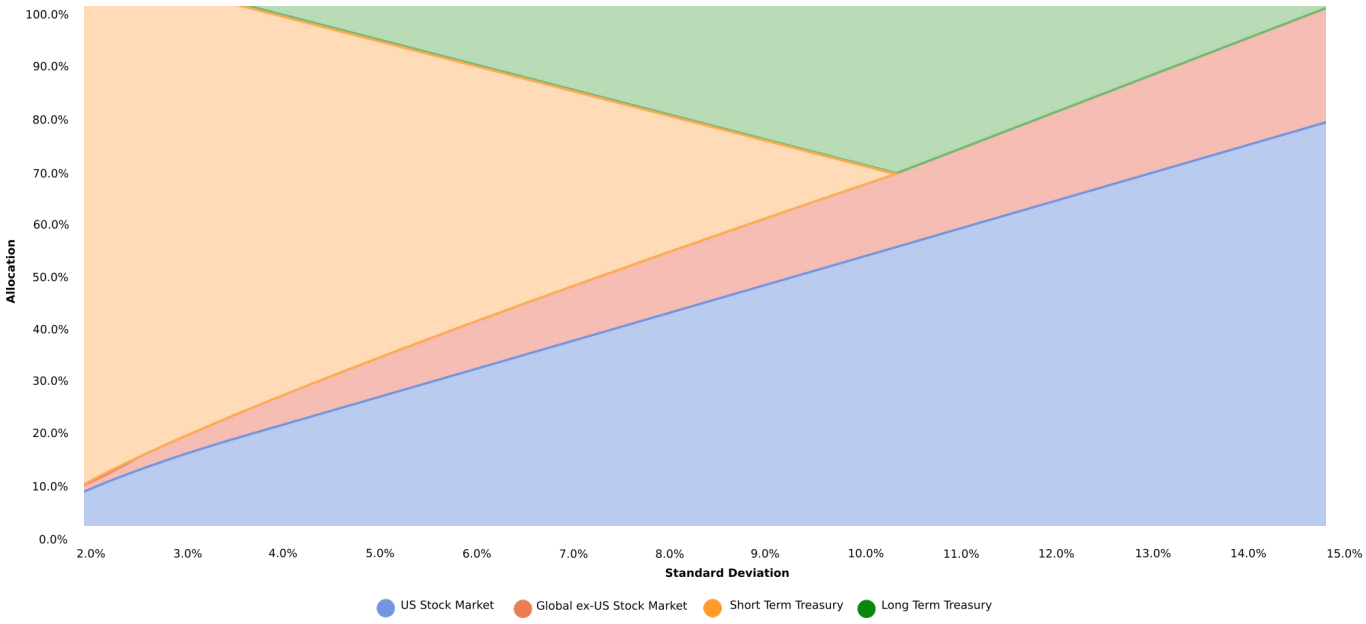
Using some extensive mathematics and the assistance of computers, we can mix the assets identified in the strategic asset allocation to find the optimal blends that maximize returns for given amounts of risk. Using Lambda, for a particular investor, we can then see where on the spectrum of risk-return that suits the client best.[10] The mathematics are rarely stable, but we do get the opportunity to create some pretty graphs from time to time. Technically, this process is called Black-Litterman Reverse Mean-Variance Optimization (MVO), which we then run Monte Carlo Simulation (MCS) on.[11] Here are the optimal trade-offs in early 2021 on four of the major asset classes.[12]

Efficient Frontier Transition Map



[10] Um=E(Rm) – 0.005 * lambda * Var_m. This formula finds the equity-bond portfolio based on optimized volatility and client lambda.

[11] In layman terms, mathematical optimization is done on the asset choices using a mix of our capital market expectations and historical data. We start with what we think is the solution and then backward optimize. The solution is then expanded with scenario analysis around the distribution of expectations and data, not just single point estimates.

[12] The chart shows the optimal asset allocation (vertical cross-section of the graph) across the risk spectrum (x-axis). It is one example of Mean Variance Optimization with one group of major asset classes.

Once these risk-return trade-offs are determined and investor preferences defined, one can then model wealth projections of an investor using scenario analysis. Here we can determine the probability of successfully achieving retirement goals based on various levels of portfolio risk. Thanks to modern computers, many thousands of scenarios can be sampled, increasing confidence in the forecast (called Capital Sufficiency Analysis). Risk levels can then be further optimized from what is learned.

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Assumption: Constrained Resources

Constrained resources require an investor to extract the highest return possible within the constraints caused by their personal risk tolerance. How fast can they get this boat sailing? Those with constrained resources, which are the vast majority of investors, will see retirement months or even years sooner with successful investment performance.

Assumption: Normal Risk Perceptions

Not all people are normal. In reality, I have yet to meet a normal person and hope I never do. I believe that we are all a little special. Specifically, some investors are not risk-averse (normal) but risk-neutral or even risk-seeking.

Our investment counsellors often hear comments such as:

"I have enough for retirement, so invest these funds however you deem worthy."

"I don't care about volatility as I am not going to require these funds anytime soon. Go ahead and take whatever risk you feel is prudent. Get me the best return possible!"

Traditional Finance struggles to aid these investors, but two scenarios are possible. First, one needs to determine if constrained resources exist. Quantified objectives are critical, and this reinforces the importance of the retirement plan for most investors. A current retirement plan,[13] tested with robust scenario analysis (MCS) and navigated with constrained resources, will present a required investment return needed to achieve the goals and its associated risk (as discussed earlier).

The second scenario is an investor who does not have constrained resources. In this case, they should devise and quantify new goals for the funds, but in the absence of that, they certainly are in a unique position from a risk perspective. One can easily argue that, for these investors, they can afford NOT TO TAKE risk as easily as they can afford to TAKE risk. They can raise the sails or lower the anchor. It really doesn't matter, and for these situations, we have had to dig deeper for appropriate tools to assist in the counsel of the risk decision.

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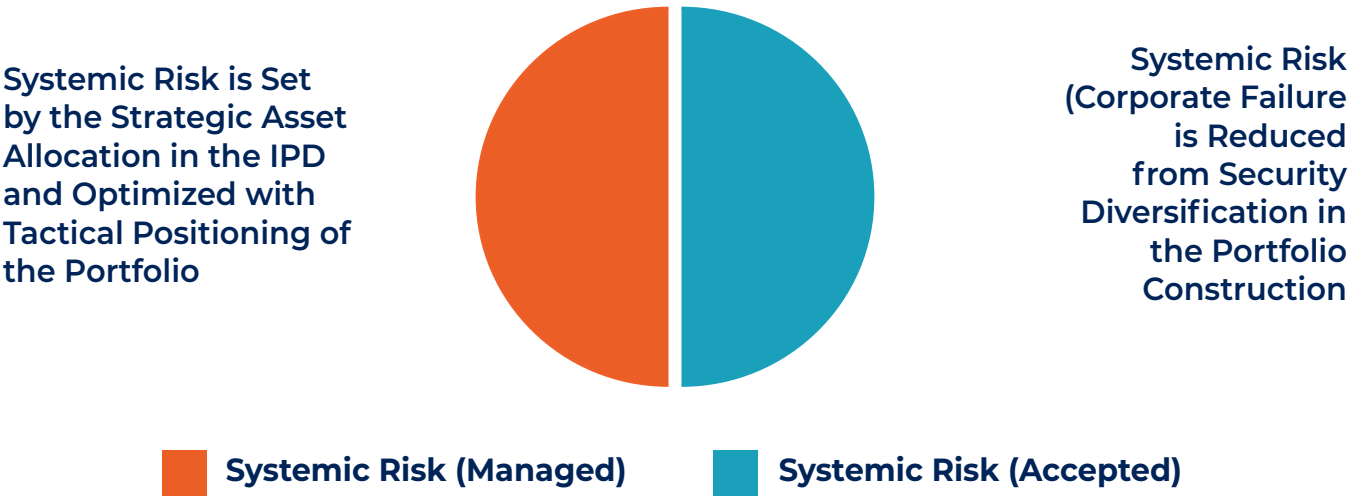
What is Risk Anyway?

While some risks can be managed through diversification (specific risk), much risk has to be accepted (systemic). Assuming constructive diversification has been used in the portfolio construction, the risk under consideration here would be systemic or non-diversifiable. This risk is not specific to any one investment but general to all investors.

This is a crucial assumption. That the portfolio is well constructed and properly diversified so that the remaining risks to consider are only general in nature. One has to trust the investment manager and understand portfolio positions to take this leap of faith.

[13] We ask to update retirement plans no less than every 3-5 years and, if in retirement, like to review it annually.

Investment Risk Exposure



The capital asset pricing model (CAPM) is the most common tool to evaluate systemic risk as it simply aggregates all investable assets into one risk bucket. When the investor contemplates an equity position, risk can be measured as the difference between this position and the entire risk bucket.[14] Again, we assume here that the exposure is diversified enough that risk specific to the investment (public corporation) has been diversified away, and the risk that remains is systematic. For example, a portfolio of utility stocks would therefore expose the investor to utility sector risk, which could be measured against the risk of the entire stock market.

Sector risk is a common parsing strategy when investing and making a risk decision. Obviously, the utility sector would offer less systemic risk than the oil and gas sector. Another typical segmentation is company size, with smaller companies historically providing a higher return in exchange for higher risk. Similar differentiation can be applied to geographic allocations, i.e., developed versus developing markets. Companies with higher tangible values (value stocks), when compared to growth stocks, are a famous factor.[15] These are just a few of the endless approaches and variables used to break down and measure risk.

A valid concern is the possibility of arbitrary, or non-productive, risk segmentation. It may be reassuring that the portfolio has been diversified across market sectors and geography, but the risk reduction could be just an illusion. Do these factors represent constructive diversification and risk reduction? This question can keep investment managers awake at night as the anticorrelations shift over time.

[14] This measurement is captured in the variable called beta. Beta is the relative price volatility of an asset relative to the entire market (or benchmark).
[15] Fama and French pushed past the Markowitz CAPM model first with a 4, then a 5-factor model that many assumed would change finance forever. Then, a tsunami of factors were proposed. Today, many portfolio managers use the original CAPM, because it works.

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Asset Allocation Insights: The Holistic Balance Sheet

If you have ever applied for a mortgage, you have probably completed a traditional net worth statement. This statement lists what you own and what you owe, with the difference being your net worth.

For example:

Traditional Net Worth Statement			
Assets:		Liabilities:	
Investment Accounts:	$950,000	Credit Cards:	$5,000
Family Home:	$1,200,000	Mortgages:	$490,000
Vehicles:	$50,000	Car Loan:	$5,000
Vacation Home:	$200,000		
Total Assets:	$2,400,000	Total Liabilities:	$500,000
Traditional Net Worth:		$1,900,000	

In this example, the investor would determine the risk decision on the $950,000 of investments with limited regard to the other assets and liabilities. Psychological risk tolerance would be measured, as well as risk capacity. Estimates of risk capacity could be drawn from the net worth statement, its debt ratios, and qualitatively from discussions about job security, health, investment time horizon and age.

As a baseline, let's assume this client made the risk decision at 60% equities and 40% bonds. Drawing from behavioural finance, one could extend the traditional balance sheet to include less tangible assets and liabilities. This exercise aims to gain a better picture of holistic risk and better advise on the risk decision.

To illustrate, we can return to our previous example.

Holistic Net Worth Statement			
Financial Assets:		**Financial Liabilities:**	
Investment Accounts:	$950,000	Credit Cards:	$5,000
Family Home:	$1,200,000	Mortgages:	$490,000
Vehicles:	$50,000	Car Loan:	$5,000
Vacation Home:	$200,000		
Extended Assets:		**Extended Liabilities:**	
PV Human Capital:	$778,474	PV Pre-Retirement Consumption:	$716,276
PV Gov't Benefits:	$166,570	PV Retirement Consumption:	$832,851
PV Future Inheritances:	$258,419	PV Future Gifts to Kids:	$131,367
Total Assets:	$3,603,464	**Total Liabilities:**	$2,180,494
Holistic Net Worth:		$1,422,970	

The economic balance sheet or holistic net worth statement opens the door to several new perspectives on risk and risk decisions. First, a number of items on this statement are worthy of explanation.

PV Human Capital – the present value of the investor's expected employment earnings from today until retirement in 15 years. Depending on the occupation, the discount rate used here will be variable. For example, suppose the investor has a commission sales position with a high potential for turnover. In that case, we could view the Human Capital asset as similar in its risk profile to equity investments. Alternatively, if the position was salaried, stable with union protection, we could approach the human capital created as similar to a bond in terms of risk.[16]

PV Gov't Benefits – Depending on the time left before retirement, one can often expect higher levels of certain pension benefits (government or private).[17]

[16] Human capital was discounted here at 5% with 15 years left until retirement and $75,000/annum.
[17] Here we discounted $12,000 of pension payable in 15 years for 35 years at 4%.

PV Future Inheritances – In this example, we contemplate a $1,000,000 inheritance 20 years from now. The certainty of this is low, so we discounted it at 7%, which values it at only $258,419 today.

PV Pre and Post-Retirement Consumption – The holistic approach also needs to capture future liabilities, including consumption. Here, we break down future consumption before and after retirement as patterns do change over time. Consumption forecasting can be done using lifecycle patterns adjusted for mortality risk (co-morbidity if married), making the analysis highly specific to the investor.[18]

PV Future Gifts to Kids – also wanting to leave a $1,000,000 inheritance, but in this case, in 30 years with higher uncertainty makes the liability today valued at $131,367.[19]

One may note that the net worth has fallen from $1.9M to $1.4M, but these are not as comparable as might first be considered. In the holistic perspective, the investor has planned retirement, paid off all debt and gifted $1,000,000 to the kids. The $1.4M becomes redundant or unused. Its existence should cause reconsideration of the financial plan. Should they retire sooner? Purchase a better house or gift assets to the kids before death? All worthy considerations thanks to the holistic approach.

The Asset Allocation Decision

Returning to the task at hand, which is to gain insight on the risk decision, we can use the human capital asset when considering risk. This investor had previously decided on a risk allocation of 60% equity and 40% bonds based on a traditional net worth statement and risk assessment. In determining the Human Capital, we identified that the investor had a higher risk job with lower job security. Therefore, this human capital risk level could be considered 75% "equity-like" and "25% bond-like".

When we total the human capital and the financial capital together, we get a total asset value of $1,728,474.[20] If the goal is to place 60% of this in equities and not change the risk allocation of the employment, we would have to adjust the risk profile of the investment account.

[18] In this illustration, we kept it simple and used pre-retirement consumption of $60,000 leaving some funds for savings and post-retirement consumption also at $60,000 for 35 years discounted at 4%.
[19] We discounted the future inheritance at 7% for 30 years.
[20] $950,000 investments plus $778,474 human capital.

Before adjustment, the higher risk human capital pushes the client's risk position to 67% equities and 33% bonds:

	Equity:	Bond:	Total:
Human Capital:	$583,856	$194,619	$778,474
Financial Capital:	$570,000	$380,000	$950,000
Total:	$1,153,856	$574,619	$1,728,474
Allocation:	67%	33%	

After adjustment, the client would reduce the investment account's exposure to equities to account for the higher risk human capital as follows:

	Equity:	Bond:	Total:
Human Capital:	$583,845	$194,619	$778,474
Financial Capital:	$453,229	$496,771	$950,000
Total:	$1,037,085	$691,390	$1,728,474
Allocation:	60%	40%	

This approach can be extended to include all client's financial assets, including the low-risk government or private pensions, which would often shift the risk profile back in the other direction.

This holistic balance sheet and related risk perspective are fast becoming a powerful tool for advising a client on the risk decision.

Asset Allocation: Goals-Based Asset Allocation

Thanks to behavioural finance, another approach breaks down the purpose and meaning of investments into various goals. Then, depending on the importance of the goal, adjusting the risk decision accordingly. This is also a very productive area of planning and has been used in much greater frequency in recent years. Goals are often broken down with the first two base layers as follows:

- **Meeting Basic Needs (Basic)**
- **Maintaining the Current Standard of Living (Lifestyle)**

These base-layers are often non-negotiable, with achievement expectations needing to be in the 75-90% range.[21] To determine the quantum of investment required for these goals, one performs a consumption forecast, often integrating mortality expectations and decisions about future inflation. Our current practice is to forecast both individual mortality expectations and co-morbidities with a planned reduction in consumption on the first passing.[22] Further, we use mortality expectations based on income demographics[23] and consumption patterns, reflecting reducing consumption later in the life cycle.[24] To offset longevity risk[25] or path dependency risk,[26] we also build a safety reserve into the model. The result is a retirement liability defined as 'Core Capital,' which can be broken into Basic and Lifestyle components.

Depending on the investor, some might physically separate the investment capital needed for base layers and hold them in separate accounts. As one could imagine, the risk decision here would be low with the core assets managed conservatively. Monte Carlo Analysis can once again be deployed to ensure that the risk-return decision is appropriate and goal attainment can be achieved with high levels of confidence.

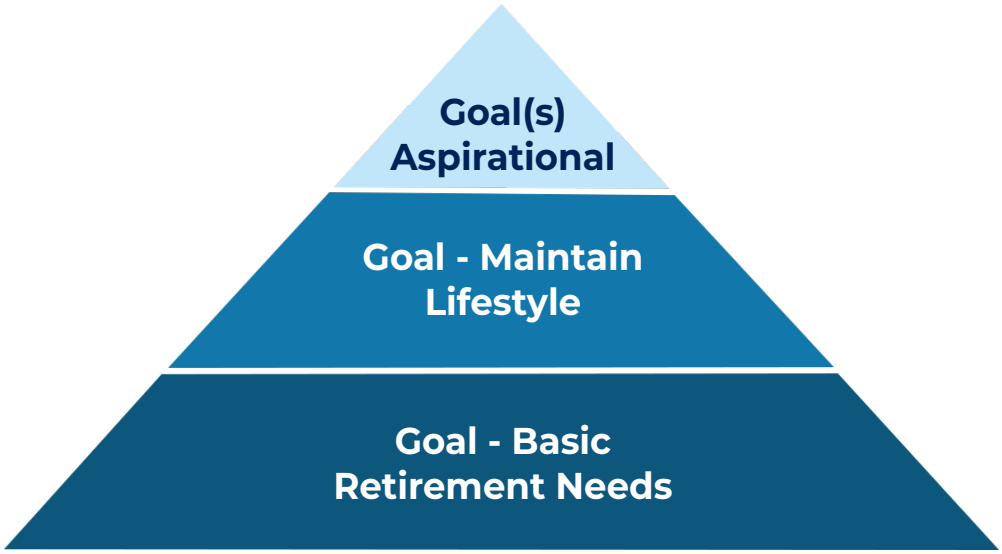
This approach is most common when two spouses have significant differences in risk tolerance.

This approach is most common when two spouses have significant differences in risk tolerance. The spouse, with the lower risk tolerance, appreciates seeing the Basic and Lifestyle goals conservatively funded and segregated from the other more aspirational investments.

- **Aspirational Goals**

The other portfolio layers can also be segregated into unlimited numbers of goals, like leaving assets to the kids, making a large charitable donation, or purchasing a yacht. Again, depending on the client, assets could be physically separated or pooled together with the separation done notionally (often annually). Here, the risk decision can be more liberal as achievement of aspirational goals is less important than the Basic and Lifestyle goals.

[22] We assume a 1/3 reduction in consumption on the passing of a spouse.
[23] It is a reality that mortality expectations change for the better with net worth.
[24] We discuss this with the client, but often reduce consumption at age 75 by 1/3.
[25] Longevity risk is the risk of living past mortality expectations.
[26] Path dependency risk is when an investor experiences a large market loss early in retirement creating disproportional challenges to recover the market losses and maintain expected income over time.



If physical separation was chosen, the less risk-averse spouse could manage the investments that support aspirational goals.

Surplus Optimization (Liability-Relative)

Shifting gears, we can look at a number of other approaches that focus more on the liability (retirement needs) than the asset (investment accounts). While the shift in attention is subtle, it does provide new insights into the risk decision.

Assets:
Investment
Accounts

Liabilities:
Retirement Needs
(Core Capital)

In the previous section, we discussed the calculation of Core Capital, or the funds required to cover Basic and Lifestyle Needs in retirement. As the core capital is the liability, any investment balances above this requirement could be considered surplus capital.

This is an approach most often taken by pension funds but could work with private investors too. In this instance, the investor(s) would invest their entire portfolio at an aspirational risk level with risk reduction requirements should the surplus fall below certain thresholds. Sometimes these are referred to as speed corridors.

Should the surplus diminish, so would the risk level on the portfolio. Should the surplus encroach on the core needs, the portfolio could be immunized of its risk by converting entirely to fixed income. We believe that opportunities exist for more assertive risk decisions with many investing clients, most likely available after a surplus determination is made.

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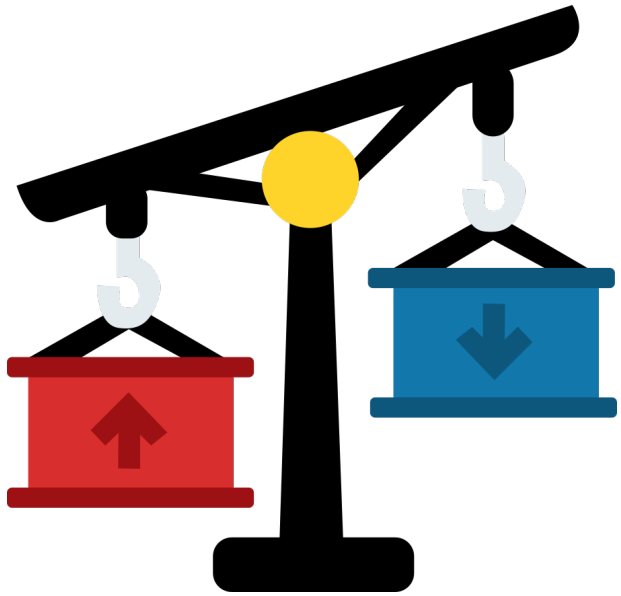

One can also expand on this approach by looking at interconnected relationships between the liability and the assets. For example, if the human capital was in the same industry as the investment capital (e.g., oil and gas), more articulate adjustments, immunization and hedging of risks could be considered.[27]

Behavioural Finance Considerations with Risk & Age

A common theme to this narrative has been the use of behavioural finance perspectives and tools to assist an investor with the risk decision. As we age, behavioural finance also offers insight into our potentially changing perceptions of risk.

Increased Loss Aversion – Nobody understands why, but we tend to become more loss-averse as we age. Simply reducing risk with age is ok.

[27] Banks call this ALM or Asset-Liability-Management and it also can apply to individual investors.

Consumption Gaps – Many investors want to live off the income of the retirement portfolio in retirement. This can be a goal even when there is no stated legacy or estate priorities. This conservatism creates a consumption gap, with investment assets becoming redundant later in life. Planning is required here.

The Annuity Puzzle – Despite the availability of a simple solution to purchase an annuity that guarantees retirement income for life, it remains unpopular. An annuity is similar to a reverse life insurance policy. The client pays a lump sum (like a death benefit) to the insurance company to receive back income (like premiums) for life. Few Canadians will consider this option, and it baffles economists.

These and other changing perspectives on risk need to be captured, addressed and potentially adapted to overtime—an important reason to meet with your investment manager annually for a meaningful discussion.

Changes in Long-Term Risk Positions

An investment manager's traditional role is to counsel a panicked client, preventing them from selling when markets are down. Many advisors take pride in their ability to keep investors "on course" with their original goals, but there are moments when changing course is also appropriate.

Change in Goals – As goals shift, so can the risk decision. Something as simple as a change in the retirement date could justify reconsidering the portfolio's risk decision. Common life events such as marriage, divorce and death can also create changes to the investment goals and the risk decision.

Change in Constraints – Tax rates, economic capacity, time horizons and regulatory changes can impact the risk decision.

Change in Beliefs – People can rationally change investment and risk perceptions and do not require re-education in all such circumstances. Here, the portfolio needs to adjust to the changing beliefs of the investor.

Summary and Conclusions

We first tackled the importance of the risk decision, showing not just how important it is to your account performance but also how material it could be to the achievement of your goals and aspirations. It is important to study risk and understand what can be diversified and what cannot. While specific risk is diversifiable, systemic risks are not and have to be accepted as part of the Strategic Asset Allocation. When deciding on how much risk to take, measuring it accurately remains an important priority.

Quantifying objectives is far more critical than investors may realize. It allows constructive performance modelling to properly advise on the required returns necessary to achieve these goals at various levels of confidence. It then creates a feedback loop, where the investor can shift or optimize the risk level or revise the goal.

In situations where goal attainment is not a concern and the account is in a surplus position, one can consider Goals-Based Asset Allocation. Either physically or notionally segmenting the account(s) based on the goal and resulting risk position. One can also articulate core capital needs and any resulting surplus. Risk could be determined, in part, by the state of the surplus. Should the surplus breach set limits, the portfolio could be de-risked. Otherwise, proactive and assertive investment strategies can be confidently deployed (on the surplus or the entire portfolio), opening an important opportunity for productive wealth creation.

With age, risk perceptions will also change. While advisors have been trained to keep investors on track, some situations certainly warrant adjusting the risk decision. A substantive client relationship is required to identify when it is best to modify risk.

The bottom line is that this important decision is one that deserves more attention. Our investment councillors stand ready to have meaningful conversations with you. To discover perspectives that can not only boost your return, but potentially allow you to sleep better at night while dreaming of a retirement that is months or even years earlier than previously thought possible.

Why do we do this?

At Qube, we are passionate about many great topics focusing on Canadians' investment needs. With our passion for financial planning, we promote financial literacy to anyone within our reach. The whitepapers we create aim to bring awareness of the benefits that working with a wealth manager provides. After reading the papers, our objective is to have the opportunity to prepare an investment proposal for potential clients. While the topics we write about are applicable for Canadians, Qube specifically services clients anywhere in Alberta and British Columbia.

Next Steps

Your goals, whether they are focused on ensuring a comfortable retirement, growing a business, taking care of later generations or something more intangible, we are here to make it matter. We want you to reach out to see how we can help. You can contact Qube at info@qubeinvest.ca or by phone: 1.866.463.7939.

Disclaimer

Qube Investment Management Inc. has authored the material presented above to promote financial literacy and professional development. Qube makes no warranty for the accuracy, validity, or completeness of the above information. It is not intended to provide specific advice with respect to individual financial, investment, tax, legal or accounting matters.

For advice specific to your situation, consult an appropriate investment, legal or accounting professional.

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