

Managing Investment Risk and Communicating Success to Your Clients

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“Insights and Innovation”

Fundamental Beliefs

1. Client goals matters of money, not returns
2. Short term risk is uncertainty and expressed as volatility
(managed by diversification and liquidity)
3. Long term risk is return deficiency and too little money
4. Communication should be via outcomes, not statistics

Case Study in Meeting Client Goals

Part One: Estimating Client Outcomes

Expected Outcomes in Real Terms

(Average of 3 sets of 5,000 Random Scenarios)

Goal vs Results				
Ex Ante Outcomes	Goal	4.5%	5.0%	5.5%
Cumulative Real Withdrawals	14,525,714	13,547,853	14,619,696	15,532,998
Real Ending Portfolio Value	10,000,000	9,715,649	11,803,973	13,338,863
Total Real Earned Value	24,525,714	23,263,502	26,423,669	28,871,861

* Portfolio beginning value: 10,000,000

- **Goals for next 30 years in inflation-adjusted terms:**
 - *Distribute 145% of a \$10 million portfolio*
 - *Maintain current purchasing power for the next generation*
- At the target return portfolio will:
 - *meet its spending goal and grow by almost 18 percent*
- *At less than its target return, portfolio will fail;*
This demonstrates that long-term risk is “Return Deficiency”

Performance Attribution in Dollars

	Real Mean Returns		
Ex Ante Performance Attribution of Real Outcomes	4.5%	5.0%	5.5%
Real Cumulative Excess Withdrawals	-981,529	91,377	1,007,284
Real Excess Ending Value	-284,351	1,803,973	3,338,863
Total Real Earned Value	-1,265,880	1,895,350	4,346,147

* Portfolio beginning value: 10,000,000

Primary objective of portfolio growth reflects better results

Insights

- Client monetary goals are the true benchmark of success
- Preserving capital is “job one”
- Sustainable withdrawal rate is a key investment decision
- Forward-looking analysis shows the true “downside risk”
- Real risk tolerance is in terms of “*Mission Failure*”
- ***Clients must demand more from their investment managers***
 - *Outcomes in money terms*
 - *Results adjusted for inflation*
 - *Understandable statistics that relate to the money earned*

Interested in Presenting Compelling Results to Your Clients?

It's easier than you think!

Please contact us for a consultation.

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