



NaviPlan Standard Online/Offline

Asset Allocation Self-Study Guide

USA version 11.2

EISI, Winnipeg

Disclaimer

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Asset allocation

The NaviPlan Standard Asset Allocation Self-Study Guide was created using NaviPlan Standard Offline with the Ibbotson Asset Allocation option. This option allows you to use actual Ibbotson return rates in NaviPlan's calculations.

Note: If you are using a version of NaviPlan without the Ibbotson Asset Allocation option, or if you are using NaviPlan Online, there will be some differences between the guide and your version of NaviPlan.

NaviPlan Standard, with the Ibbotson Asset Allocation option, provides you with a questionnaire to determine your clients' investor profile. You can override the questionnaire results and select an investor profile directly (but you must fill out the questionnaire first).

In either case, NaviPlan suggests an asset mix appropriate for clients with that profile. In Level 2 and Level 3 Plans, you can modify the suggested asset mix. This suggested asset mix is used as an asset allocation target (a model to achieve) throughout the plan.

The exercises in this module are based on a version of NaviPlan Standard Offline that includes the Ibbotson Asset Allocation option, which means that the asset allocation settings (asset classes, investor profiles) are set up for you. If your version of NaviPlan Standard Offline does not include the Ibbotson Asset Allocation option, you can modify the data.

Learning objectives

This module will enable you to

- Assess your clients' risk tolerance and determine an appropriate asset allocation mix
 - Enter accounts in an Asset Allocation Assessment to capture the current asset allocation mix
 - Assess your clients' risk tolerance
 - Compare the current asset mix to the suggested asset mix using the *Asset Allocation* report
 - Promote the Asset Allocation Assessment to a Level 3 Plan
 - Modify suggested asset mix details for the retirement goal

Learning tools

This module includes some practice exercises. We recommend that you use the Nick and Lisa Brown (Brown, Nick and Lisa.nps) client file in the data folder of your installation of NaviPlan Standard Offline (the default path is C:\Program Files\EISI\Data, but you may

have installed it elsewhere). It will be available when you run NaviPlan Standard Offline, as well as on the central server if you prefer to work in the online application.

Hint: In NaviPlan Standard Offline, to find the location of your data directory, go to the **User Preferences** menu – **System Settings** selection – **User Preferences - System Settings** dialog box – **File Locations** tab.

Use the Asset Allocation assessment

Two levels of detail are available in the Asset Allocation Assessment: simple and detailed. If you use the simple Asset Allocation Assessment, you can promote it to a Level 1, 2, or 3 Plan. The detailed Asset Allocation Assessment can be promoted to a Level 2 or 3 Plan, but not to a Level 1 Plan. Promoting an assessment to a plan enables you to create a more advanced assessment without having to re-enter the client information already gathered.

Create an Asset Allocation Assessment

You can create and use the Asset Allocation Assessment to review your clients' current asset allocation, establish their risk tolerance, and create a proposed allocation. You can use the *Asset Allocation* client report to compare the clients' current allocation to the proposed allocation.

To create a new Asset Allocation Assessment

1. Go to the **Plan Management** section – **Plan List** category – **Plans** page, and then click the **New** button. The *Plan Creation* dialog box opens to the *Plan Selection* tab.

Plan Creation - Plan Selection

Calculators

Calculator Choose a calculator

Assessments

Financial Assessment

Asset Allocation

Plans

Level 1

Level 2

Level 3

Information

Asset Allocation

Estimated time to complete: 15 minutes

Description

Create a simple or detailed Asset Allocation assessment to review the clients' current asset allocation, establish their risk tolerance, and create a proposed allocation. Compare the clients' current allocation to the proposed allocation, and view the results.

Promote Options

Can be promoted to any one of the following levels:

	AA Simple	AA Detailed
• Level 1	✓	X
• Level 2	✓	✓
• Level 3	✓	✓

Back Next Finish Cancel

Figure 1: Plan Management section – Plan List category – Plans page – New button – Plan Creation dialog box

- Under **Assessments**, select **Asset Allocation**, and then click **Next**. The *Analysis Setup* tab opens.
- Enter a unique name for your Asset Allocation Assessment in the *Assessment Name* field, and the start year for the assessment in the *Plan Year* field, and then click **Next**. The *Summary* tab opens.
- Verify the information on the *Summary* tab, and then click **Finish**. The *Plan Creation* dialog box closes, and NaviPlan opens to the *Asset Allocation* section – *Asset Allocation* category – *General* page.

Enter general information

Once you have created the Asset Allocation Assessment, you can enter the clients' data.

Asset Allocation

Notes Calculators

General Accounts Questionnaire Profile Summary Client Report

Assessment Name* Assessment Year

Brown's Asset Allocation 2008

Base the assessment calculations on the following date:

Assessment Analysis Date*

Jan 1 2008 Use today's date

Figure 2: Asset Allocation section – Asset Allocation category – General page

You can enter or modify the *Assessment Name* and *Assessment Analysis Date* on the *Asset Allocation* section – *Asset Allocation* category – *General* page. When you select the *Use today's date* check box, the *Assessment Analysis Date* updates each time you open the *Asset Allocation* Assessment.

Enter simple or detailed accounts

The *Accounts* page in the *Asset Allocation* Assessment offers two modes of account data entry:

- Simple account entry mode
- Detailed account entry mode

To switch from simple account mode to detailed account mode, click the **Detailed Accounts** button on the *Asset Allocation* section – *Asset Allocation* category – *Accounts* page.

You can enter the following information in both simple and detailed account modes:

- *Market Value* – Enter the account market value based on the *Assessment Analysis Date* (assumed valuation date).
- *Asset Class Weightings* – Classify the account based on specific asset classes or manual classification, and then the return rates populate automatically. The automatic classification is available for Ibbotson users only. Ibbotson includes 12 asset classes to add flexibility and additional accuracy with respect to breakdown of return rates and asset allocation modeling when allocating assets in a client plan.
- *Return Rates* – Override return rates for pre-retirement and retirement periods by clicking the *Return Rates* link.

In the detailed account entry mode you can also

- Enter holdings within an account
- Search for and classify holdings using the holding's ticker symbol, type, or asset class

Description*	Account Type*	Annuity	Additional Settings	Owner*	Market Value*	Basis*	Asset Class Weightings	Return Rates	Delete
Joint Savings Accou	Non-Qualified	<input type="checkbox"/>	Details	Joint	\$50,000	\$50,000	45% Large Cap Gro...	6.65%	X
Lisa's Brokerage Ac	Non-Qualified	<input type="checkbox"/>	Details	Joint	\$55,000	\$46,000	40% Large Cap Val...	9.04%	X
Nick's Brokerage Ac	Non-Qualified	<input type="checkbox"/>	Details	Joint	\$61,000	\$47,500	25% Large Cap Gro...	11.69%	X
Nick's 403(b)	403(b)	<input type="checkbox"/>	Details	Nick	\$25,000	\$0	25% Large Cap Gro...	8.31%	X
Lisa's Roth 401(k)	Roth 401(k)	<input type="checkbox"/>	Details	Lisa	\$50,000	\$0	15% Large Cap Gro...	5.38%	X
Kevin's 529 Plan	529 Plan	<input type="checkbox"/>	529 Plan	Nick	\$12,000	\$0	25% Large Cap Gro...	5.23%	X

Figure 3: *Asset Allocation* section – *Asset Allocation* category – *Accounts* page (simple account entry mode)

There are several other distinguishing differences between simple and detailed account entry modes:

- In the simple account mode, you can promote the Asset Allocation Assessment to a Level 1, 2, or 3 Plan
- In the detailed account mode, you can only promote the analysis to a Level 2 or 3 Plan
- Once you have selected the detailed account mode you cannot return to a simple account mode, but you can add simple accounts by clicking *Add Account – Simple Account*
- In the detailed account mode, an *Annuities* page appears, where you can enter variable annuities

To add an account

- Click the **Add Account** button to create an account. If client data is contained in the central database, clicking *Import Accounts* will retrieve the available information.

Hint: Creating accounts using the detailed account mode is recommended for clients with multiple holdings designated for the same account. For example, if your clients have \$100,000 in a 401(k) account containing four different investments, use the detailed accounts mode.

Complete the asset allocation questionnaire

With the Ibbotson Asset Allocation option, a questionnaire is provided to determine the clients' risk tolerance. NaviPlan determines the selection of the appropriate investor profile.

Use the *Questionnaire* portion of the *Asset Allocation Fact Finder* to gather information, and then answer the questions on the *Asset Allocation* section – *Asset Allocation* category – *Questionnaire* page.

A score is calculated when every question in the questionnaire has been answered. Each possible score is associated with an investor profile, which in turn is associated with a suggested asset mix. This suggested asset mix is used as an asset allocation target.

Blank *Asset Allocation Fact Finder* forms are available on the EISI Support Site at http://support.eisi.com/support_us/nps_offline/v11/tips_and_tools/data_collection_forms.htm

View the suggested asset mix

The *Asset Allocation* section – *Asset Allocation* category – *Profile* page displays the breakdown of the suggested asset mix that was determined by the clients' responses to the questionnaire.

The *Profile* page also displays a summary of your clients' investment profile containing the following details:

- the proposed investor profile
- the proposed time horizon
- the expected rate of return
- the expected standard deviation

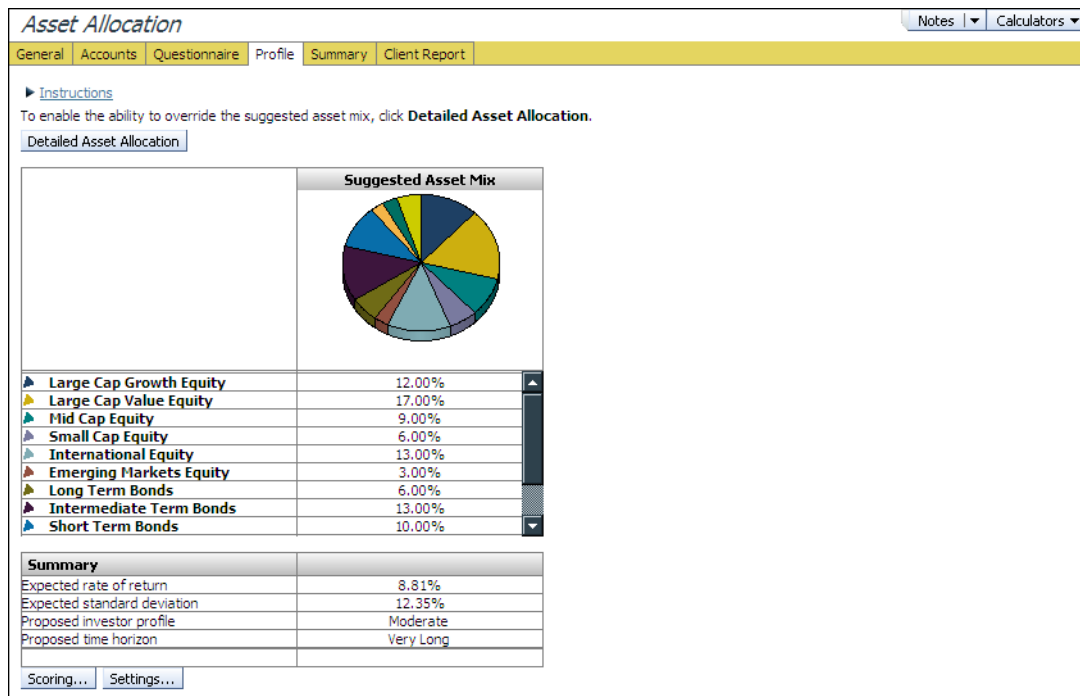


Figure 4: Asset Allocation section – Asset Allocation category – Profile page (simple asset allocation)

If you are using the simple asset allocation mode in the Asset Allocation Assessment, you need to promote it to a plan level in order to edit the suggested asset mix.

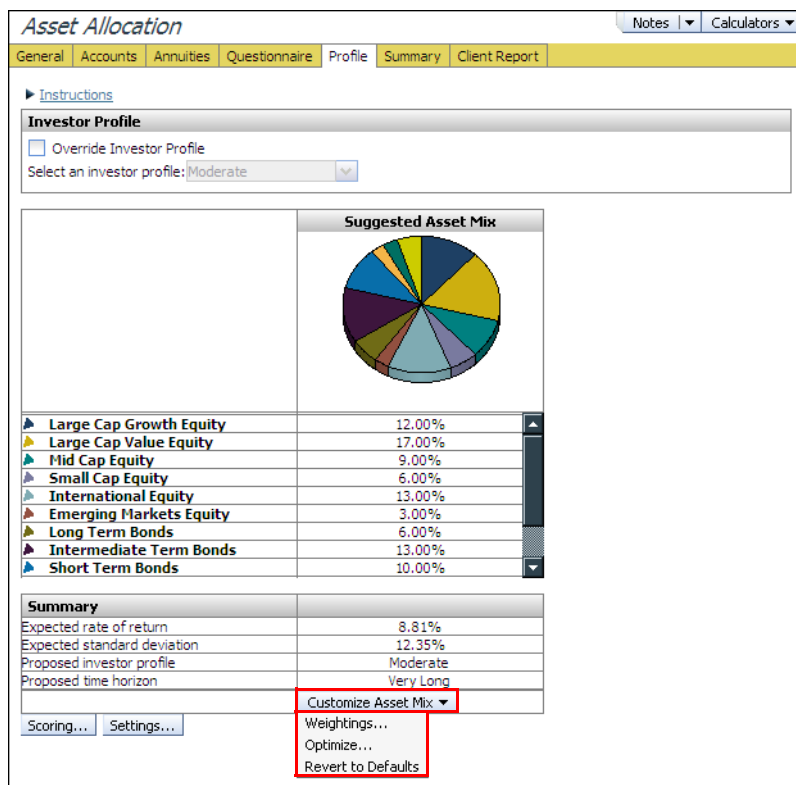


Figure 5: Asset Allocation section – Asset Allocation category – Profile page (detailed asset allocation)

Clicking the *Detailed Asset Allocation* button on the *Profile* page changes the simple asset allocation to detailed asset allocation, and gives you more control over the investor profile, time horizon, etc.

In detailed asset allocation mode you can override the investor profile by selecting *Override Investor Profile*, and then selecting a new profile from the *Select an investor profile* list. Selecting a different investor profile changes the suggested asset mix.

The *Customize Asset Mix* button appears when you change from simple to detailed asset allocation. Three options are available:

- *Weightings* – Allows you to override the default asset class weightings of the suggested asset mix.
- *Optimize* – Allows you to enter a minimum and maximum percentage range for the asset class. You must have permission to use Mean Variance Optimization to use this option.
- *Revert to Defaults* – Resets the overridden investor profile and cancels any changes made to the asset class weightings for the selected portfolio.

View the asset allocation comparison

The *Asset Allocation* section – *Asset Allocation* category – *Summary* page displays a comparison of the current asset mix and the suggested asset mix.

This summary view displays the differences in the rate of return, standard deviation, and the asset mix.

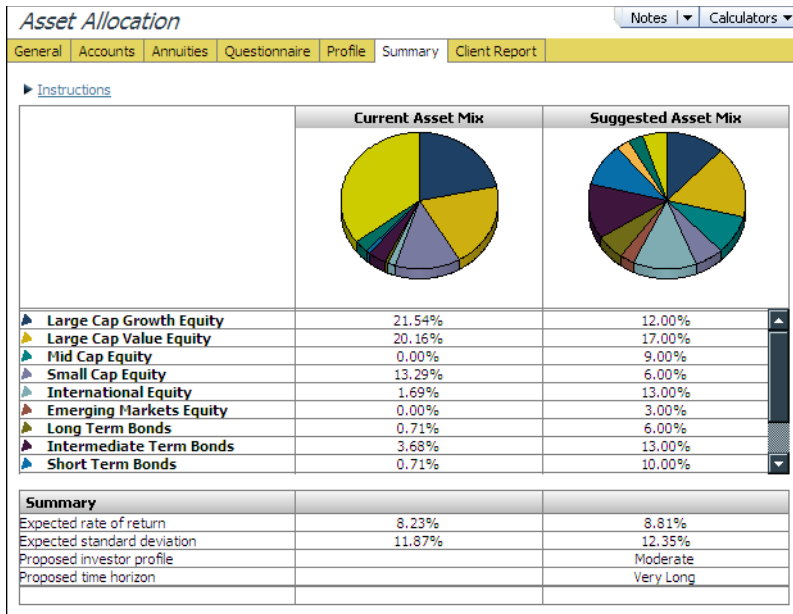


Figure 6: Asset Allocation section – Asset Allocation category – Summary page

Interpret the Asset Allocation client report

The *Asset Allocation* report is a large report composed of many different sections. It combines text and graphs to give you an overview of your clients' current assets, risk tolerance, current asset mix, portfolio breakdown, and suggested asset mix.

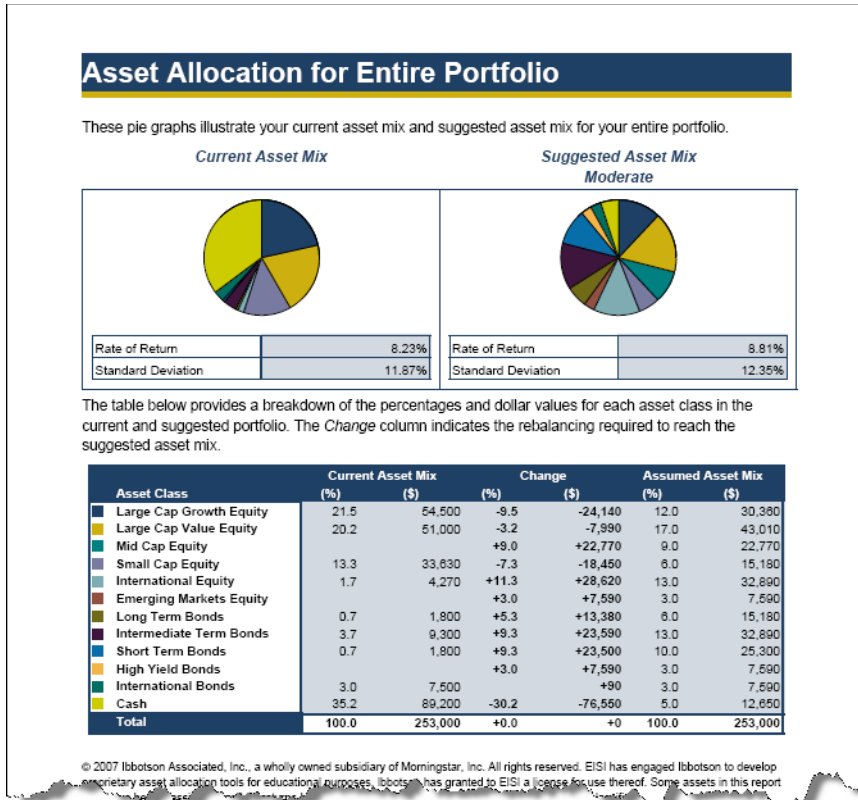


Figure 7: Asset Allocation client report – Asset Allocation for Entire Portfolio

This report is available in the Asset Allocation Assessment as well as in all three planning levels in NaviPlan Standard.

Generate the report

To generate and view the *Asset Allocation* client report

1. Go to the **Asset Allocation** section – **Asset Allocation** category – **Client Report** page, and then select **Default Template** from the *Template* list.
2. Click the **Select Document Sections** button to open the *Select Document Sections* dialog box.

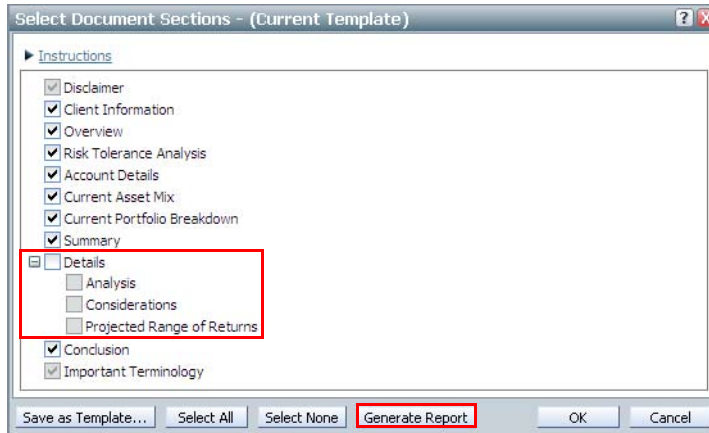


Figure 8: *Select Document Sections* dialog box

3. Clear the **Details** check box to reduce the size of the report, and then click the **Generate Report** button. The *Asset Allocation* client report opens.

View the report

The report includes two mandatory sections (*Disclaimer* and *Important Terminology*), plus the sections that remained selected in the *Select Document Sections* dialog box.

Look at several sections of the report:

- *Client Information* – Displays a recap of the client information entered in the assessment
- *Asset Allocation Overview* – Discusses the basic principles behind asset allocation
- *Risk Tolerance Analysis* – Displays the responses selected in the questionnaire
- *Account Details* – Shows the assets used in the asset allocation
- *Current Asset Mix* – Displays the current asset mix in a table format
- *Current Portfolio Breakdown* – Displays a breakdown of all the assets in the Asset Allocation Assessment by percentage of portfolio and market value
- *Asset Allocation for Entire Portfolio* – Displays a side-by-side comparison of the current asset mix and the suggested asset mix, and displays recommendations on how to achieve the suggested asset mix

If further planning is needed, you can promote the Asset Allocation Analysis to a Level 2 or Level 3 Plan.

Reallocate assets in a plan

Reallocating assets in a plan allows you to modify the clients' current asset allocation mix and asset returns based on the clients' risk tolerance.

Promote an Asset Allocation Assessment to a Level 3 Plan

To reallocate assets, you must first promote the Asset Allocation Assessment to a Level 3 Plan.

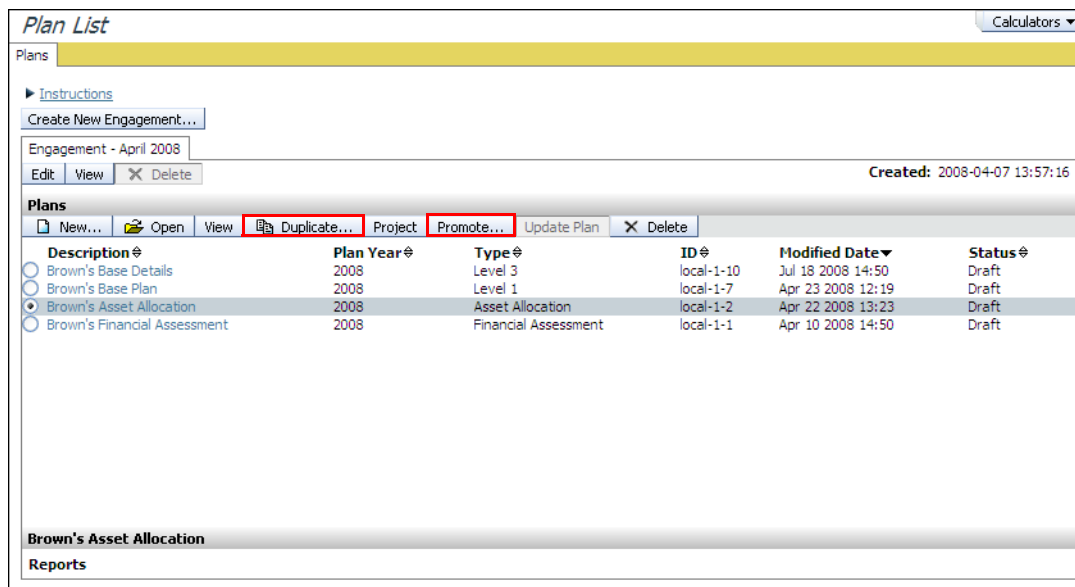


Figure 9: Plan Management section – Plan List category – Plans page

To promote the assessment to a Level 3 Plan

1. Go to the **Plan Management** section – **Plan List** category – **Plans** page, select **Brown's Asset Allocation**, and then click the **Promote** button. The *Promote Plan* dialog box opens.

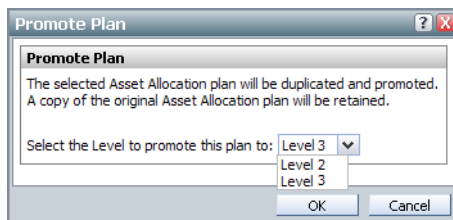


Figure 10: Plan Management section – Plan List category – Plans page – Promote Plan button – Promote Plan dialog box

2. Select **Level 3** from the *Select the Level to promote this plan to* list, and then click **OK**.

A Level 3 Plan, based on the Asset Allocation Assessment, is created, and can be used to apply asset reallocation strategies. In the Level 3 Plan, the questionnaire answers and asset allocation details that were entered in the Asset Allocation Assessment are now available in the *Plan Management* section – *Asset Allocation* category.

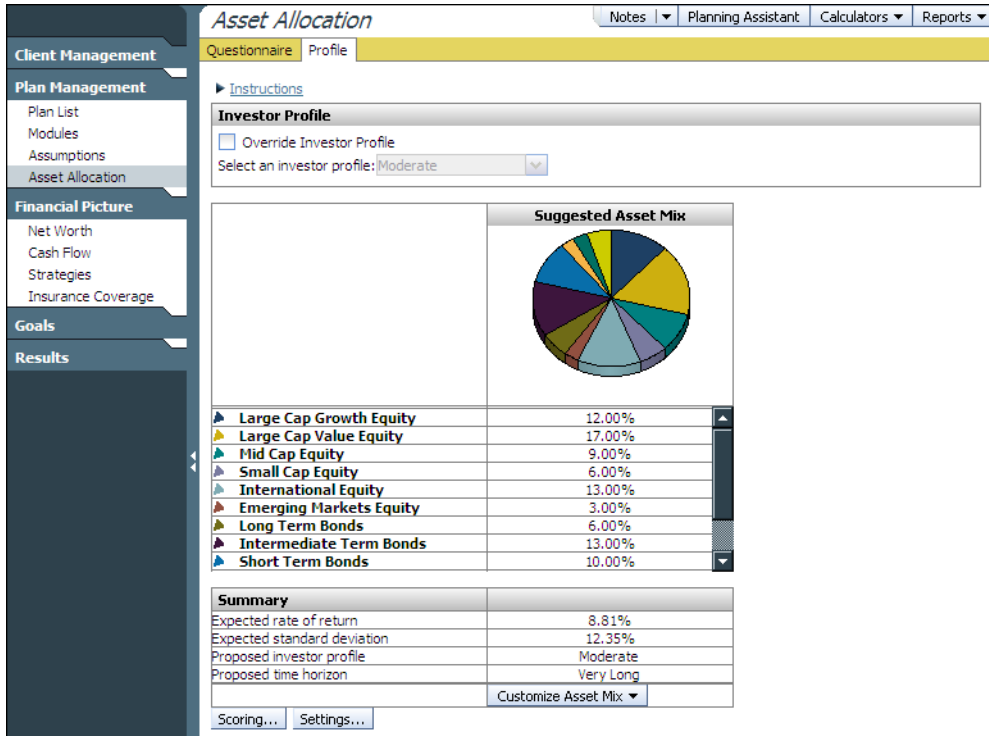


Figure 11: Plan Management section – Asset Allocation category – Profile page (Level 3 Plan)

Any accounts and annuities that were entered in the Asset Allocation Assessment are available in the *Financial Picture* section – *Net Worth* category.

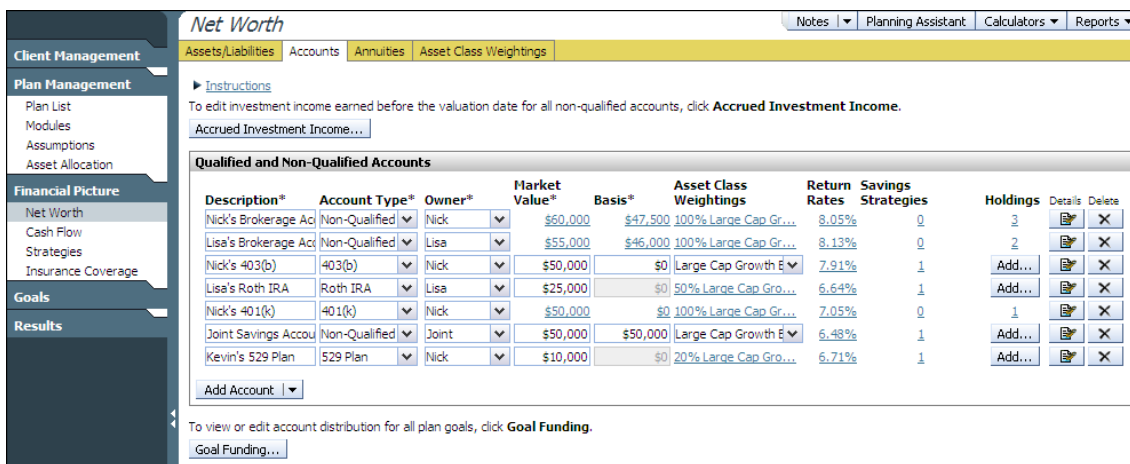


Figure 12: Financial Picture section – Net Worth category – Accounts page

Override goal investor profiles in a Level 3 Plan

For retirement, education, and major purchase goals, NaviPan allows you to define a suggested asset mix for each goal. By default, NaviPlan constructs the suggested asset mix using the answers to questionnaire on the *Plan Management* section – *Asset Allocation* category – *Questionnaire* page. The *Recommendations for <goal type> Goal* reports are useful for summarizing the asset allocation settings for each goal.

To view asset allocation settings for the retirement goal

1. In the *Brown's Base Details* plan, go to the **Goals** section – **Retirement** category – **Objectives** page.
2. Under *Objectives*, click the **Asset Allocation** button. The *Asset Allocation Details* dialog box opens. Using the settings in this dialog box, NaviPlan reallocates funding to match the suggested asset mix. The suggested asset mix is used as a primary recommendation for What-if strategies.

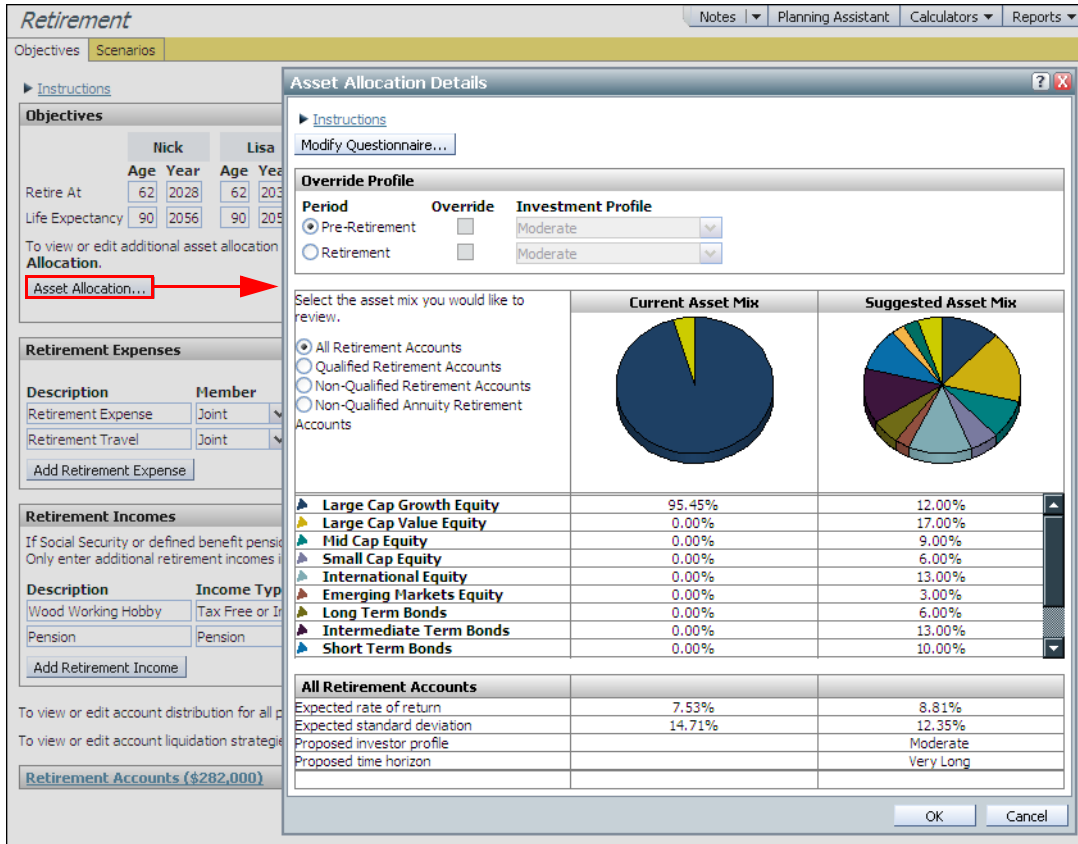


Figure 13: Goal section – Retirement category – Objectives page – Asset Allocation button – Asset Allocation Details dialog box

In Level 3 Plans, you can edit the asset allocation questionnaire responses for individual goals by clicking the *Modify Questionnaire* button. Under *Override Profile*, you can override the investment profile used for the pre-retirement or retirement period. By default, the pre-retirement and retirement periods have identical investor profiles. However, you can take advantage of differences in the clients' risk tolerance between the two periods. In the table in this dialog box, you can review the current and suggested asset mixes by selecting an account type.

3. Click **Cancel** to close the dialog box.

To generate the *Asset Allocation Recommendations for Retirement Goal* report

1. From the *Reports* menu, select **Asset Allocation – Recommendations for Retirement Goal**. The *Recommendations for Retirement Goal* dialog box opens. The report compares the asset allocation for the current plan with the suggested asset mix and provides the account changes that would be necessary to construct the suggested asset mix.

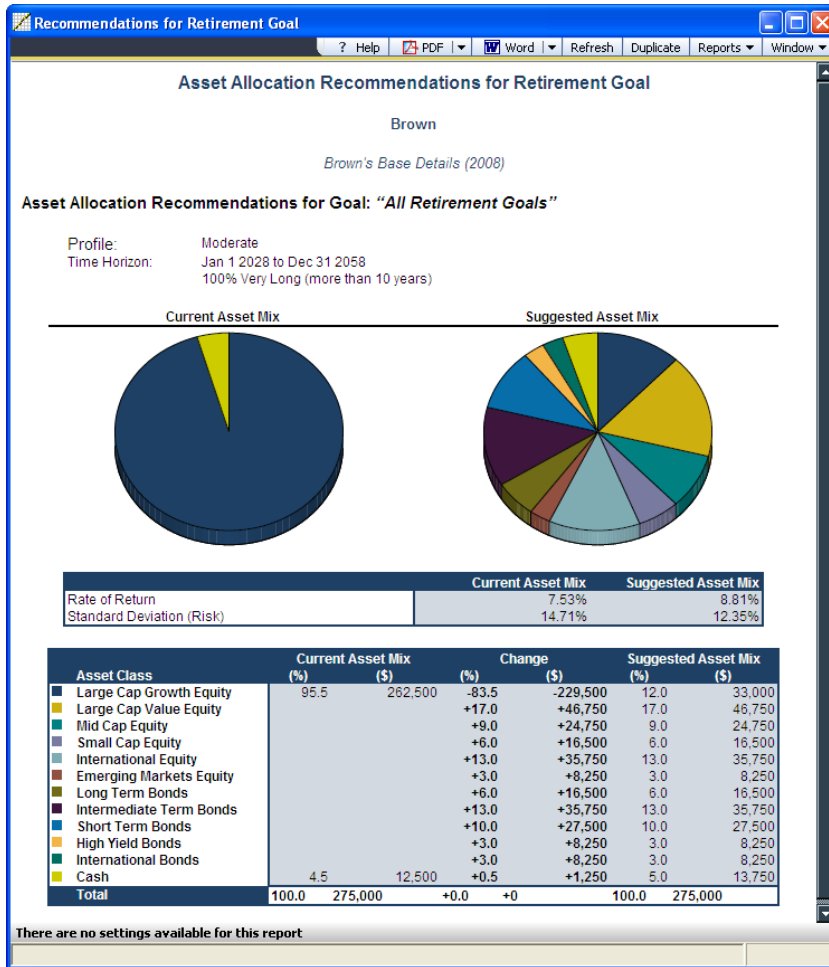


Figure 14: Recommendations for Retirement Goal dialog box – Asset Allocation Recommendations for Retirement Goal report

2. Close the dialog box.

To modify the asset allocation for the retirement goal

1. On the *Objectives* page, click the **Asset Allocation** button. The *Asset Allocation Details* dialog box opens.
2. Under *Investor Profile*, select the **Pre-Retirement** option.
3. For each asset mix in the table, select the asset mix, select the **Override** check box, and then from the *Investment Profile* list, select **Aggressive**.
Note: You cannot override the investor profiles when *All Retirement Accounts* is selected.
4. Under *Investor Profile*, select the **Retirement** option.
5. In the table, select **Qualified Retirement Accounts**.
6. Select the **Override** check box, and then from the *Investor Profile* list, select **Conservative**.
7. In the table, select **All Retirement Accounts**. Notice that the investor profile appears as *Blended Mix* since you now have a mix of *Moderate* and *Converoative* investor profiles for the retirement period. For the suggested asset mix, the return rate and standard deviation reflect the blended mix.
8. Click **OK** to close the dialog box and save your changes.

Modify asset class weightings for a goal

In addition to modifying the investor profiles for a goal, you can customize the asset mix weightings of the suggested asset mix to better suit the clients' situation.

Note: When reallocating assets, NaviPlan Standard will not calculate the taxes due as a result of the reallocation.

To modify the asset class weightings for the retirement goal

1. Click the **Asset Allocation** button. The *Asset Allocation Details* dialog box opens.
2. In the *Asset Allocation Details* dialog box, select **Qualified Retirement Accounts**.
3. Click the **Customize Asset Mix** button, and then select **Weightings**. The *Asset Class Weightings* dialog box opens.

In this dialog box, you can override the asset class weightings by selecting the *Override default asset class weightings* check box, and then entering new asset class weightings.

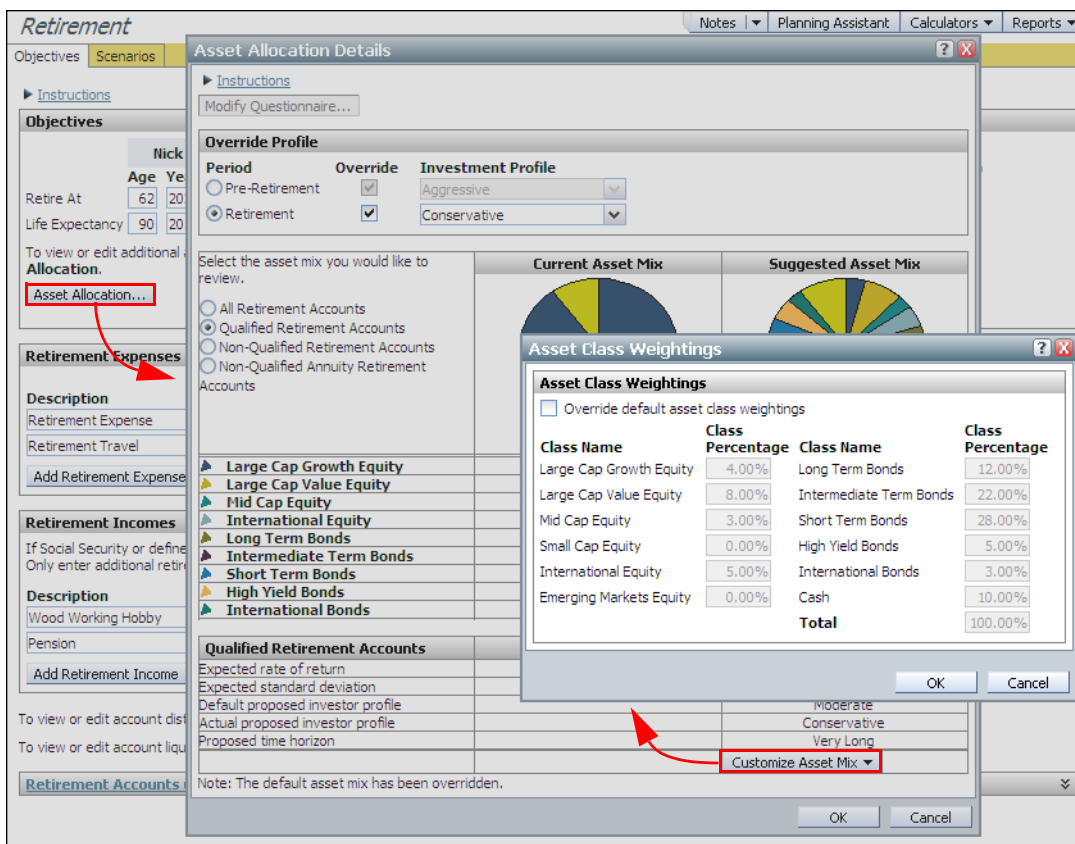


Figure 15: Goals section – Retirement category – Objectives page – Asset Allocation button – Asset Allocation Details dialog box – Customize Asset Mix button – Weightings Option – Asset Class Weightings dialog box

4. Click **Cancel**. The *Asset Class Weightings* dialog box closes.

Optimize the suggested asset mix

In NaviPlan, the *Efficient Frontier* graph shows you the most efficient asset mix with the maximum expected return for a given level of risk. Standard deviation is a measure of how much the rate of return fluctuates around its historical average. The higher the standard deviation, the greater the degree of risk. Modifying the suggested standard deviation gives you some control over the risk factor in an investment.

If the *Efficient Frontier* graph displays the clients' current asset mix below the efficient frontier line then the clients' returns are low for the amount of risk, or the return is suitable but the level of risk is too high.

You can set constraints for the weightings of each class. Using these constraints, NaviPlan determines new asset mixes that achieve a similar rate of return or standard deviation as the suggested asset mix.

To optimize the asset mix according to the efficient frontier

1. In the *Asset Allocation Details* dialog box, click the **Customize Asset Mix** button, and then select the **Optimize** option. The *Optimize* dialog box opens. The Efficient Frontier line shown in the graph indicates the highest expected return for a given level of risk (standard deviation). An asset mix that touches this line is considered to be highly efficient.

Note: Clicking any point on the Efficient Frontier line or on an asset mix shows the associated return rate and standard deviation. Double-clicking a point on the Efficient Frontier line uses that point as the new suggested asset mix. You can use this process as an alternative to manually overriding the standard deviation.

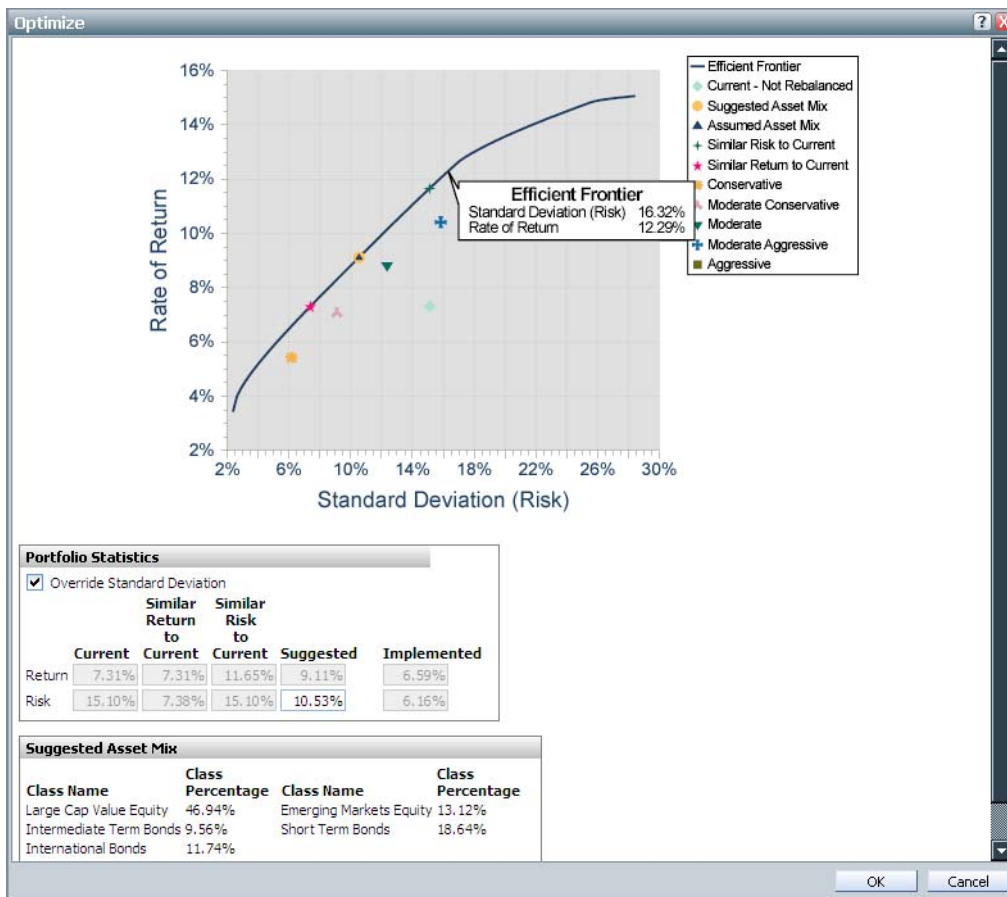


Figure 16: Goals section – Retirement category – Objectives page – Asset Allocation button – Asset Allocation Details dialog box – Customize Asset Mix button – Optimize option – Optimize dialog box

2. Under *Suggested Asset Mix*, click the **Individual Constraints** button. The *Individual Constraints* dialog box opens. If your clients want to maintain a minimum or maximum

holding percentage for a specific asset class, or wish to exclude an asset class altogether, you can define the range of asset class weighting constraints. Entering constraints can prevent asset classes with favorable returns from dominating the asset mix or violating common sense.

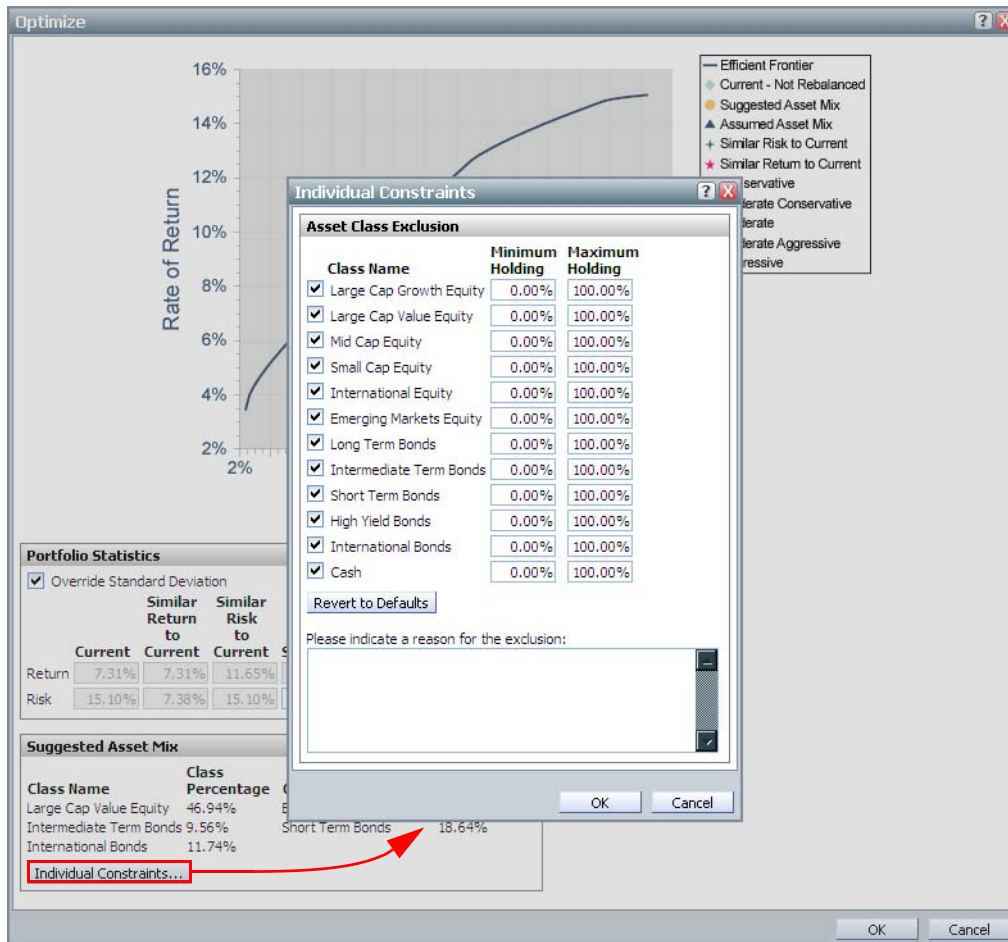


Figure 17: Goals section – Retirement category – Objectives page – Asset Allocation button – Asset Allocation Details dialog box – Customize Asset Mix button – Optimize option – Optimize dialog box – Individual Constraints button – Individual Constraints dialog box

3. Click **Cancel** three times to close all open dialog boxes.

Reallocate assets

To compare the effects of asset reallocation on the clients' plan, go to the **Goals** section – **Retirement** category – **Scenarios** page – **Objectives** tab. By default the *Current Plan* scenario is displayed on the left side and the *Recommended* scenario is displayed on the right side.

The *Recommended* scenario represents the clients' current plan with the reallocation to include the suggested asset mix and any changes you made to the asset mix. You can modify the values in the *Return Rate* or the *Investment Profile* fields, as needed, in the *Recommended* scenario, and the *Goal Coverage* value updates accordingly.

The screenshot displays the 'Retirement' section with the 'Objectives' tab selected. It compares two scenarios: 'Current Plan' and 'Recommended'. The 'Recommended' scenario is highlighted with a red box, indicating its updated settings. The 'Investment Profile' for the 'Recommended' scenario is set to 'Aggressive', resulting in a higher 'Return Rate' of 11.69% for pre-retirement and 7.26% for retirement, compared to the 'Current Plan's' 'Current - Not Rebalanced' profile with a 7.53% return rate. The 'Goal Coverage' for the 'Recommended' scenario is 100%, while the 'Current Plan' is at 86%. The 'Other Goal Coverage' section at the bottom lists various goals like Cash Flow, Education, and Major Purchase, with a 'Calculate' button for each.

Figure 18: Goals section – Retirement category – Scenarios page – Objectives tab

Note: It might be a good idea to use different profiles or asset mixes for different asset types, since asset mixes generate returns that are taxed differently.

View the effects of asset reallocation on the plan

Using some sections of the *Financial Needs Summary* client report, you can present to your clients the effects of changing their current asset mix to a suggested asset mix.

To generate the *Financial Needs Summary* client report

1. Go to the **Results** section – **Client Reports** category – **Client Report** page.
2. For *Financial Needs Summary*, click the **Select Document Sections** button. The *Select Document Sections* dialog box opens.
3. Click the **Select None** button.
4. Select the **Appendix** check box, and then click the plus sign to expand the report section.
5. Clear all check boxes under *Appendix*, except for *Asset Allocation Details*.
6. Expand the **Asset Allocation Details** report section, and then select the **Risk Tolerance Analysis** and **Asset Allocation Modifications** check boxes.

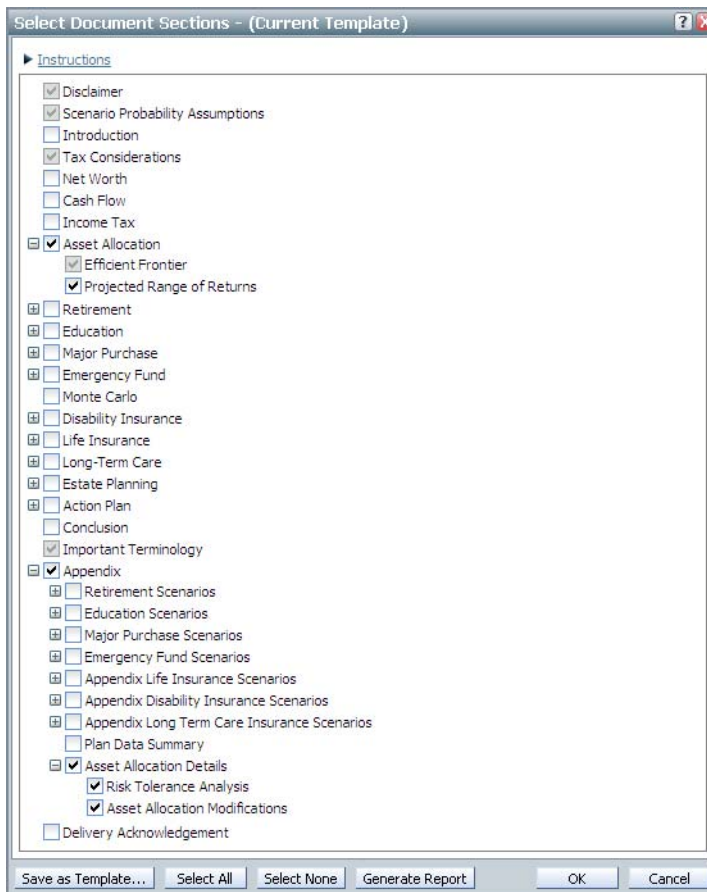


Figure 19: Select Document Sections dialog box

7. Click the **Generate Report** button.

The *Important Terminology* section of the client report provides a glossary of terms that you can show your clients to help them understand the suggestions you have recommended.

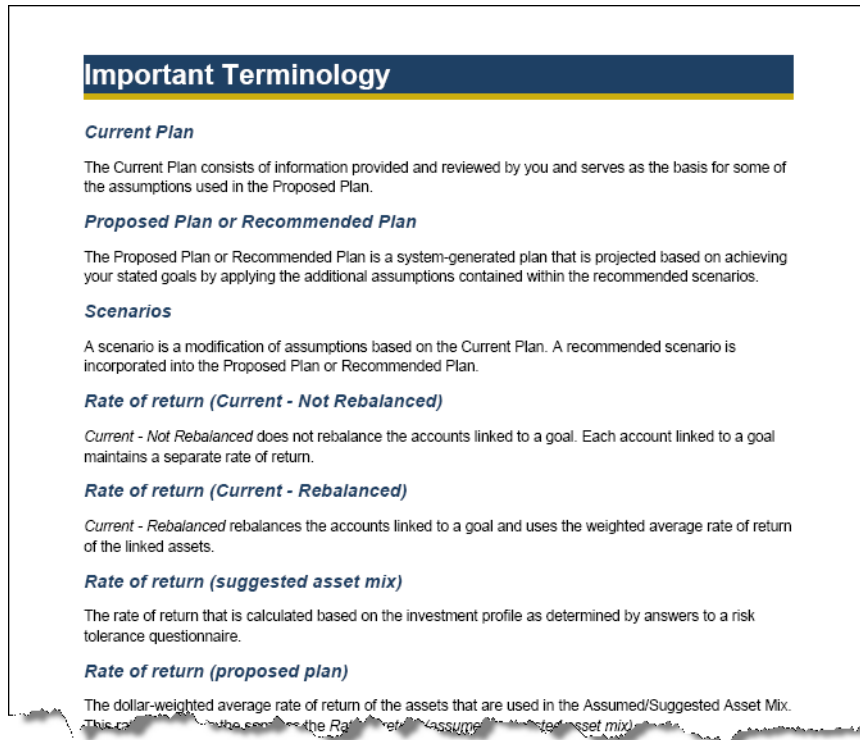


Figure 20: Financial Needs Summary client report – Important Terminology

The *Asset Allocation* section of the client report compares the clients' current asset mix and the suggested asset mix for the entire portfolio (all accounts and goals are included). Note that for the suggested asset mix, the pre-retirement and retirement mixes are different.

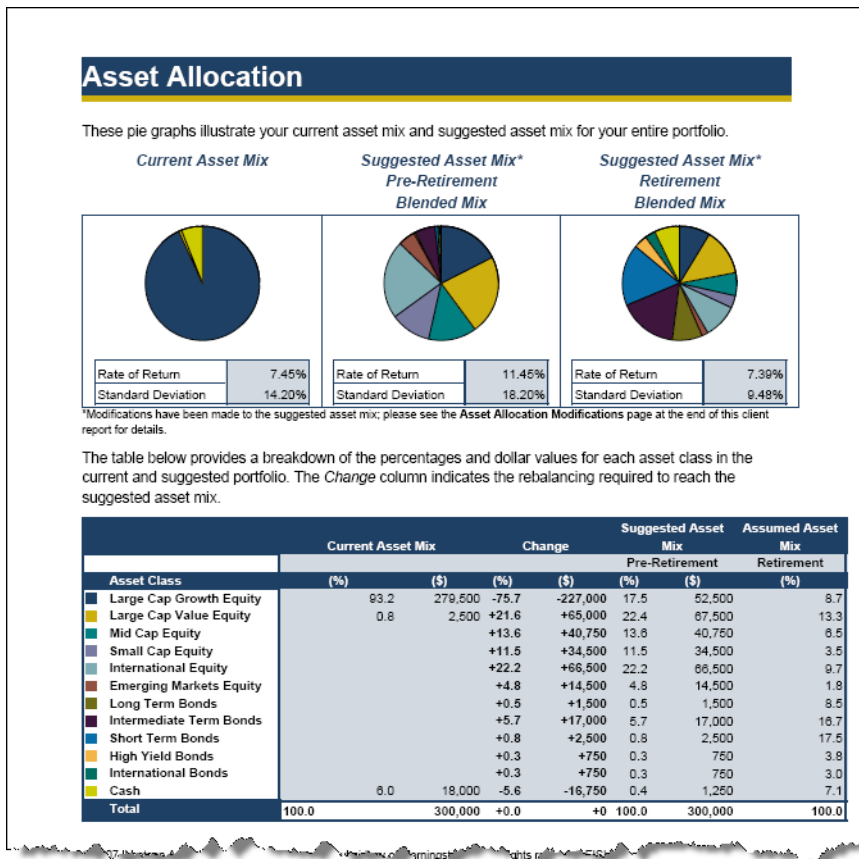


Figure 21: Financial Needs Summary client report – Asset Allocation

The *Efficient Frontier Analysis* section of the client report refers to all of the investment portfolios that provide the highest return for a given amount of risk (measured by standard deviation), which are shown in the graph by a line. The plots on the graph are defined as follows:

- A light blue diamond denotes the clients' current portfolio.
- If the Efficient Frontier line is above this portfolio, the clients may be able to obtain a better rate of return for the level of risk they are willing to accept.
- The yellow circle denotes the clients' proposed portfolio.
- Alternative model portfolios are also plotted on this graph. These additional points on the graph illustrate the risk and return associated with the other portfolios. Only those

portfolios along the Efficient Frontier line provide the clients with the greatest potential return for a given level of risk.

Exercises

The exercises have been designed specifically for this module and assume that you are working with the original data in the *Brown Asset Allocation* assessment. Before starting the exercises, duplicate the **Brown Asset Allocation** assessment, rename the duplicate with a meaningful name (e.g., *Asset allocation training*), and use it to complete the following exercises.

Hint: All copies of plans are managed in the *Plan Management* section – *Plan List* category.

Exercise 1: Establish the clients' current asset mix and interpret the Asset Allocation client report

To find the answers, see "Answers to asset allocation exercises" on page 27.

1. Nick and Lisa tell you they are unsure whether their investment portfolio is well diversified based on their risk tolerance. At this point, they have not stated their financial goals. In this situation, which of the options below is the best tool to analyze the clients' risk level during a client meeting?
 - a) Level 1 Plan
 - b) Level 2 Plan
 - c) Level 3 Plan
 - d) Calculators
 - e) Asset Allocation Assessment
 - f) Financial Assessment
2. To analyze their current asset allocation mix, what financial information do Nick and Lisa need to provide you with?
 - a) Financial objectives
 - b) Level of risk tolerance and investment asset information (account type, market value, asset class weightings, return rates)
 - c) Incomes, expenses, and tax information
 - d) Existing insurance coverage

- Nick and Lisa have provided you with the details of Nick’s non-qualified mutual funds, allowing you to now complete your analysis. Enter the following account details into the Asset Allocation Assessment using the detailed accounts mode:

Accounts							
Description	Plan Type (Non-qualified, IRA, 401(k), 403(b), 529 Plan, etc.)	Owner (Client, Co-Client, Joint, Other family member)	Current Value (\$)	Cost Basis (\$)	Asset Class Weightings OR Rate of Return	Employee Monthly Savings	Employer Monthly Savings
Stock Asset (100% Emerging Market Equities)	Non-qualified	Nick	\$15,000	\$11,500	100% Emerging...	\$0	\$0
Mutual Fund (75% Mid Cap Equity, 25% Cash)	Non-qualified	Nick	\$25,000	\$22,750	75% Mid Cap...	\$0	\$0

- Generate the *Asset Allocation* client report to verify that the new holdings are included on the *Account Details* page.

Exercise 2: Reallocate assets in a plan

Before starting this exercise, duplicate the **Brown Base Details** Level 3 Plan, rename the duplicate with a meaningful name (e.g., *Asset allocation training*), and then use it to complete the following exercise.

Hint: All copies of plans are managed in the *Plan Management* section – *Plan List* category.

To find the answers, see “Answers to asset allocation exercises” on page 27.

- In your last meeting with the Browns, you had asked them to start thinking about their financial goals. In today’s meeting, they shared their financial goals with you and would like you to help them with their retirement plan. You have gathered the details of their retirement objective and have returned to the office to analyze their situation.

List the main steps you would follow in NaviPlan to enter Nick and Lisa’s retirement goal details, and make recommendations regarding their asset allocation for pre-retirement and retirement.

- You would like to recommend to Nick and Lisa that they reduce their risk level on all their retirement accounts once they reach retirement. In the *Brown’s Base Details* Level 3 Plan, make the necessary changes to their investment profile.

Hint: To edit additional asset allocation details for the retirement goal, go to the **Goals** section – **Retirement** category – **Objectives** page.

3. Generate the *Financial Needs Summary* client report with the *Asset Allocation Analysis* report section included. Describe how you would present the results to your clients.

Conclusion

This module has enabled you to

- Assess your clients' risk tolerance and determine an appropriate asset allocation mix
 - Enter accounts in an Asset Allocation Assessment to capture the current asset allocation mix
 - Assess your clients' risk tolerance
 - Compare the current asset mix to the suggested asset mix using the *Asset Allocation* report
 - Promote the Asset Allocation Assessment to a Level 3 Plan
 - Modify suggested asset mix details for the retirement goal

Answers to asset allocation exercises

Exercise 1: Establish the clients' current asset mix and interpret the Asset Allocation client report

1. e) Asset Allocation Assessment – The Asset Allocation Assessment is the best tool to analyze the clients' risk level during a client meeting.
2. b) The financial information that Nick and Lisa need to provide you with is the level of risk tolerance and investment asset information (account type, market value, asset class weightings, return rates).

Exercise 2: Reallocate assets in a plan

1. The main steps you would follow in NaviPlan to enter Nick and Lisa's retirement goal details, and make recommendations regarding their asset allocation for pre-retirement and retirement, are as follows:
 - a) Promote the Asset Allocation Assessment to a Level 2 or Level 3 Plan.
 - b) Go to the **Goals** section – **Retirement** category – **Objectives** page.
 - c) Enter the retirement goal information.
 - d) Click the **Asset Allocation** button to customize the asset allocation for pre-retirement and retirement.
3. Answers will vary.

