# Goals-Based Investing

Posted on **October 22, 2015**

One of the biggest problems with the way many financial firms operate is that they prescribe before they diagnose. They first create a product or portfolio and then try to convince people to invest in it. They try to make a sale without first gaining an understanding of their potential client's circumstances. It's completely backwards.

A number of years ago, the investment office I worked for took a meeting with a large, well-known consultant as a favor. We never planned on using this company's consulting services, but thought it wouldn't hurt to take the meeting to see how they viewed the world. The firm didn't really understand this dynamic and came into the meeting with guns blazing. They had a huge team with a well-rehearsed pitch they used to try and impress us.

The head of the firm wasted no time going into his presentation along with some name-dropping of their current client base. He immediately outlined his firm's current investment views, which went something like this:

> *First of all, you need to have at least 15% of your portfolio invested in timber. And if you're not overweight in middle market mezzanine private equity funds and underweight large market LBOs you're going to be out of luck over the next decade. Who are your hedge fund managers? We have access to the best long/short manager in the business right now. How long will it take you to shift your portfolio to our platform?*

We were immediately taken aback by the presumptuous nature of this pitch. Not only was this firm extremely overconfident in their outlook and abilities, but they never once asked us a single question about our organization before diving into their song and dance.

They didn't ask about the mission of our organization or what the goals of the fund were.

They never asked what type of liquidity constraints we were under.

They failed to try to gain a sense of our risk profile and time horizon.

They never asked what our stated return goals and assumptions were.

Needless to say, the meeting didn't last long. However, you can't blame every financial firm when this type of thing happens. They don't have time to vet every single investor in their products and hold their hands through the entire process.

But when you're talking about advisors or consultants, who are providing a service to their clients, then they absolutely have to focus the majority of their time and energy on the client's needs. Financial services should not be a commodity business. It has to be personal for both parties to succeed.

The problem is that many clients want to be wined and dined. They want someone to tell them exactly what they want to hear, even if it's an impossible strategy with unrealistic underlying assumptions. Wall Street is not the lone culprit in this game. After all, the consultant in my story had a very large book of business. There were multi-billion dollar funds that they worked with. Someone was eating up what they were putting out there.

My feeling has always been if you're not approaching the investment process from a goals-based perspective it's going to be very difficult to ensure long-term success in the markets. Here are a few things I've learned over the years when it comes to goals-based investing:

- An investment firm can have the perfect pitch, investment structure, fund or opportunity. In many cases it may not matter if it doesn't fit within the client's stated investment policy. Just because there's a potential for a good investment doesn't mean it's the right fit for every client. The markets are always tempting us with new products, risks and opportunities. This is how individuals and organizations end up investing in strategies they don't understand or have no business performing due diligence on in the first place.
- One of the reasons certain investors constantly change up their investment strategy — usually at the worst possible moment — is because they don't have the right benchmarks in place to begin with. Many don't even know how to define whether they're on track or not. Without a deep understanding of your goals from the start there's no way to judge your investments going forward. After all, achieving your goals is the whole point of investing your money in the first place.
- It's perfectly acceptable to admit that your goals can and will change over time. We're all dealing with an uncertain future. No one knows how life is going to turn out. This is why the process of planning is so important. It allows you to continually work through the new challenges that may arrive in the context of your stated plan.
- It's much easier to believe in certainty than process, but the right process can lead to much better outcomes in the end.

Further Reading:
**Complexity As a Default**

Now here's the stuff I've been reading this week:

- What is Biff Tannen would have just bought stocks in 1985? (**Reformed Broker**)
- The real cost of starting a family (**Boomer & Echo**)
- What about the 3rd emotion in investing? (**The Insecurity Analyst**)