

Goals-Based Planning

Many Paths to the Same Destination

Goals-based planning is an investment strategy that seeks to accrue a target amount of money (\$2 million, \$5 million, \$10 million, etc.) within a predetermined time horizon (15 years, 20 years, 30 years, etc.). It's an investment approach designed to help you achieve the specific dollar figure that you will need to reach your financial goals. For example, if you have \$1 million today and want to have \$2.5 million in 15 years when you plan to retire, your scenario might look like this:

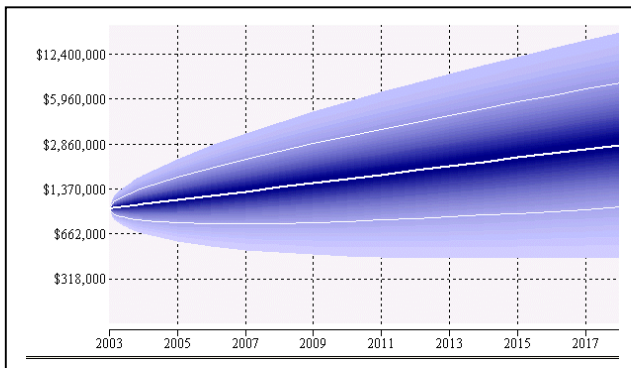
Wealth Accumulation Probability Analysis

Assumptions

- Amount Available to Invest: \$1 million
- Years Until Retirement: 15
- Retirement Goals: Maintain current lifestyle
- Dollar Goal: \$2.5 million
- Investment Strategy: Growth
- Asset Allocation: 100% diversified equities

Projected Results*

- 10% Probability: \$7,794,863
- 50% Probability: \$2,822,710
- 90% Probability: \$1,022,172



Top Line

Represents a 10% chance that the dollar value of the proposed portfolio will be, at the end of the investment time horizon, this dollar value or more.

Median Line

Represents the 50th percentile of the probability distribution. On average, this is the dollar amount the portfolio can be expected to generate over the specified time horizon.

Bottom Line

Represents a 10% chance that the dollar value of the proposed portfolio will be this value or less.

Statistically Speaking

Statistical analysis reveals that, on average, your \$1 million will grow to \$2.8 million over a 15-year time frame. On paper, everything looks good. Better still, the dark area in the center of the cone represents the core probability range of projected wealth accumulation (40%-60% probability), so the odds of ending up at, close to, or above the desired dollar figure are good. Of course, the numbers don't tell the whole story.

The Road to Success has Hills and Valleys

Despite the best wishes of investors and advisors everywhere, markets rarely move in a straight line. While everybody loves the upside potential (the chance to reach or exceed your goal more quickly than expected is something everybody wants), there is a downside too. Understanding that downside is an important part of creating an investment plan that has a realistic chance of success. On the following page, we'll take a closer look at why the experts call the market's track a "random walk."

* Projected results are gross of taxes and fees based on a hypothetical \$1 million initial investment allocated according to Lockwood Advisors' Growth Investment Strategy. The projection is for illustrative purposes only and not a guarantee of future returns. Actual investor results may differ based on a number of factors including market conditions and investment selection.

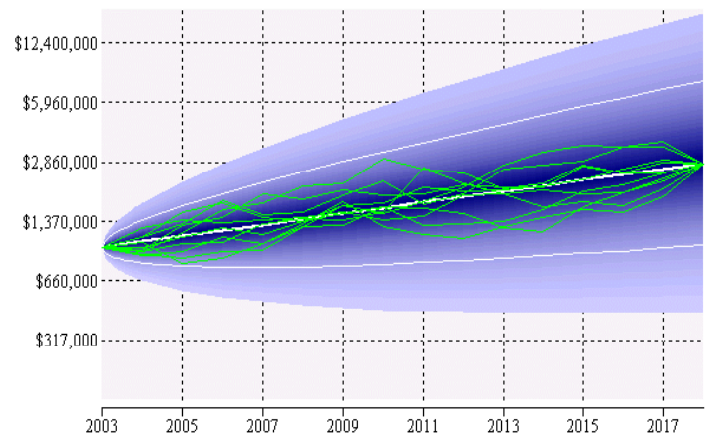
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The Random Walk

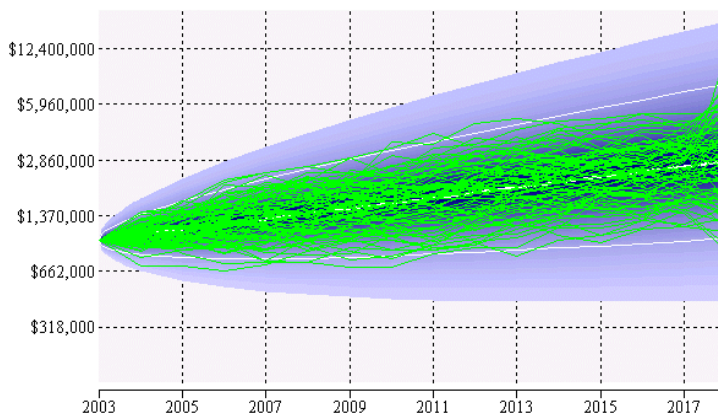
Most hypothetical investment return projections are based on the unlikely assumption that your investments will deliver a specific rate of return over a set period of time with no fluctuation. We all know that isn't going to happen. The projections on the prior page show that \$2,822,710 is the average dollar amount the portfolio can be expected to generate over the 15-year time horizon. The shaded lines on the chart below show ten paths that all lead to that \$2,822,710 dollar figure.

You can see from the chart that about half of the paths fall below the median line (50th percentile of the probability distribution) at some point during the 15-year time frame. Likewise, about half of the paths rise above the median line at some point, yet all lines end at the same place. Failure to understand and accept the ups and downs of market behavior is what causes many investors to panic and sell when their investments temporarily fall below expectations.



The Bigger Picture

The results from a look at 100 random paths based on our \$1 million investment and 15-year time frame are shown on the chart below. The chart demonstrates the wide range of possible scenarios the portfolio may take, most meeting or exceeding the \$2.8 million projection. If you feel that the scenario doesn't have a high enough probability of meeting your target wealth goal, then you may need to review other contributing factors, and consider extending your time horizon, increasing your contributions, investing more aggressively, etc. Our example makes an initial effort to improve the odds through smart planning. If you recall, we hope to accrue a nest egg of \$2.5 million, yet the projections from our random walk suggest that our strategy is likely to result in an average of \$2.8 million.



A detailed analysis of our example shows that we have a 56% probability of achieving \$2.5 million, which means that the selected investment strategy has a better than average chance of success. If we expand the analysis to include the 40% to 60% ranges, we find that the strategy is likely to achieve results in the \$2.3 million to \$3.4 million range. While keeping in mind that there are no guarantees when it comes to investing, proper planning does deliver a certain comfort level that comes from knowing that your risk tolerance is balanced by your time horizon and that the odds are in your favor.

Goals-Based Planning

Goals-based planning not only helps you create an investment plan that has a realistic chance of achieving your objective, but it also helps you quantify the amount of money that will be required to maintain the lifestyle you envision for your future. By making concrete goals and taking logical steps to achieve them, you can eliminate much of the uncertainty that causes nervous investors to sell at the wrong time and buy the wrong investments in pursuit of a future they have not really thought about and don't really know if they can afford. To learn more about goals-based planning, talk to your financial advisor.