

# The Balance Sheet Paradigm For Investment Management

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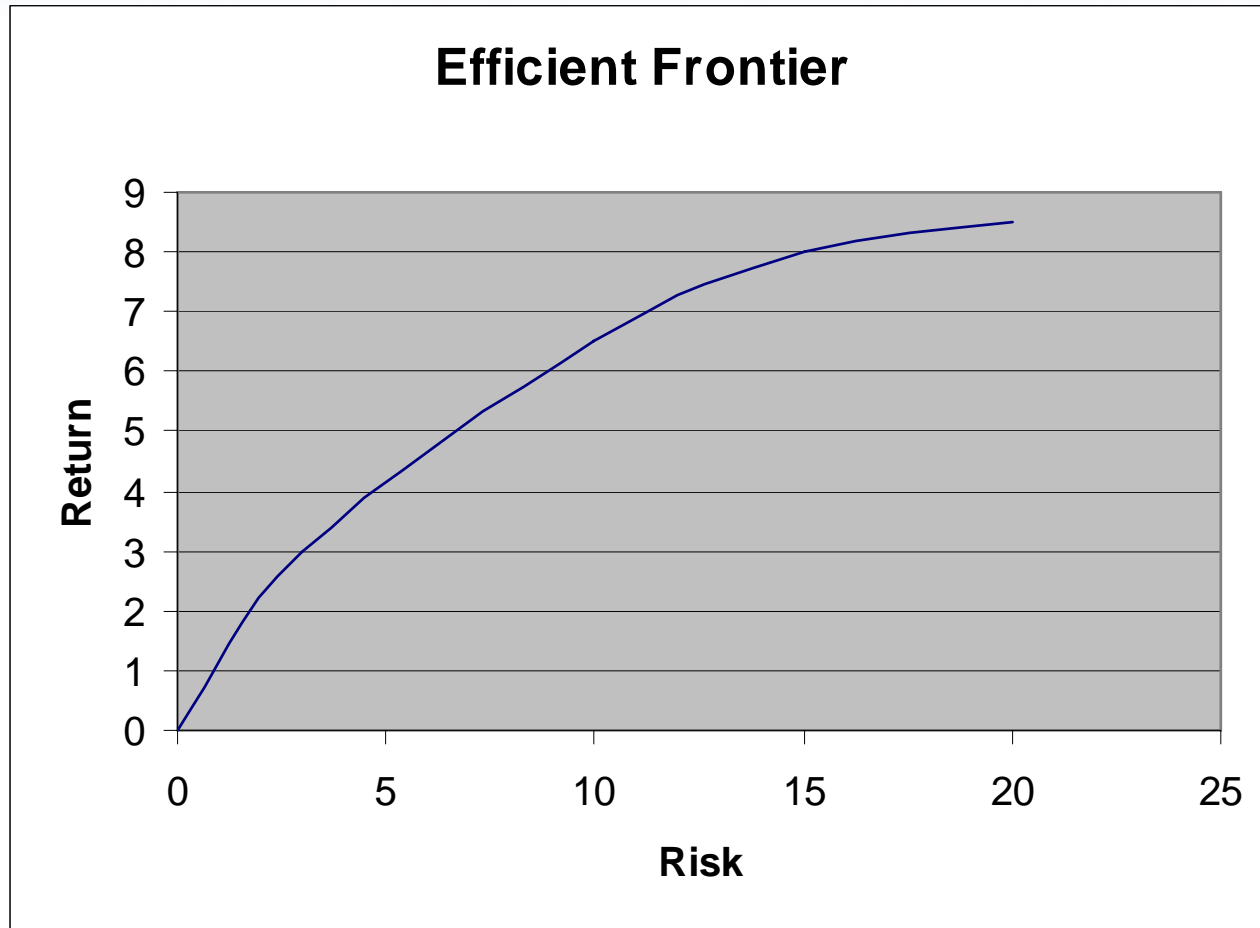


# A Classic Conflict

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- **The market demands a segmented approach**
  - Clients want customized advice
  - Marketers assure us that a segmented approach is needed to reach prospects
- **Firms struggle to deliver**
  - Need uniform processes to generate profits
  - Are captives of yesterdays technology systems

# The Root of The Problem



# Problems with the Paradigm

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- **Only thing to customize is the risk budget**
- **Very abstract**
  - Clients do not show up talking about risk budgets and efficient portfolios
- **Advisors have little to offer beyond different opinions on where to draw the frontier**
- **Portfoliocentric viewpoint is eccentric for clients**

# A New Paradigm

<b>The Family Balance Sheet</b>	
<b><i>Investments</i></b>	<b><i>Liabilities</i></b>
...Tax Deferred	...Mortgage
...Taxable	...Deferred Taxes
<b><i>Non Investment Assets</i></b>	<b><i>Goals</i></b>
...Human Capital	...Fund Retirement
...Social Security	...Educate Kids
...ESOPs	...Enjoy Life
...Real Estate	...Establish Bequest
<b>Total Resources</b>	<b>Total Claims</b>

# Rationale

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- **The balance sheet is what needs to be managed**
- **The balance sheet is what the client cares about and understands**
- **The balance sheet is what captures the custom situation**
- **Managing the balance sheet positions the advisor to capture the total portfolio**
- **Understanding the particular client embeds the advisor with the client**

# Managing the Balance Sheet

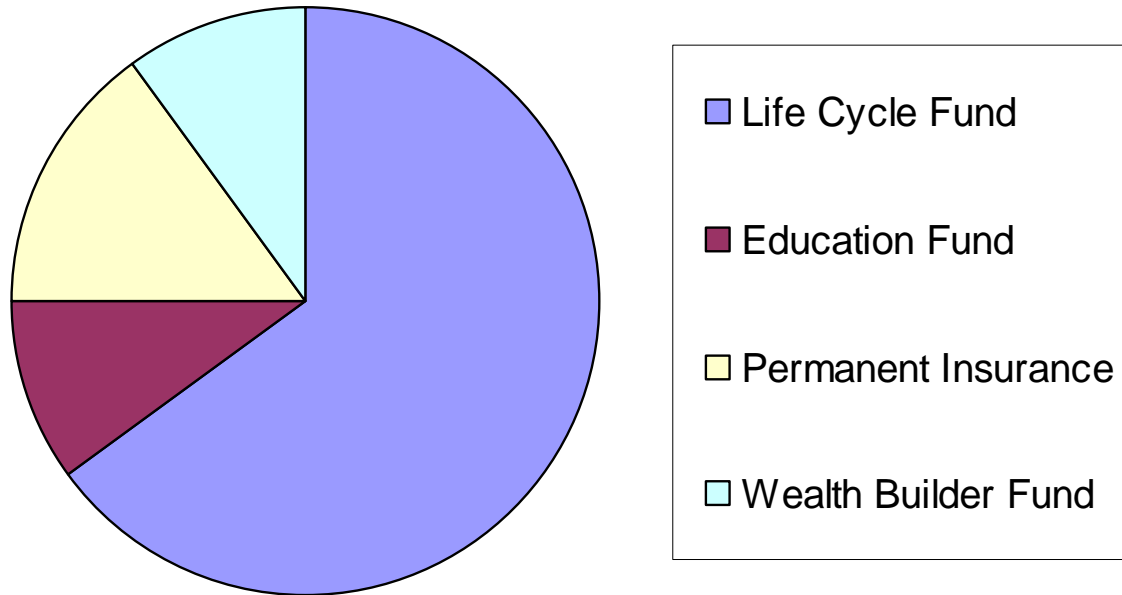
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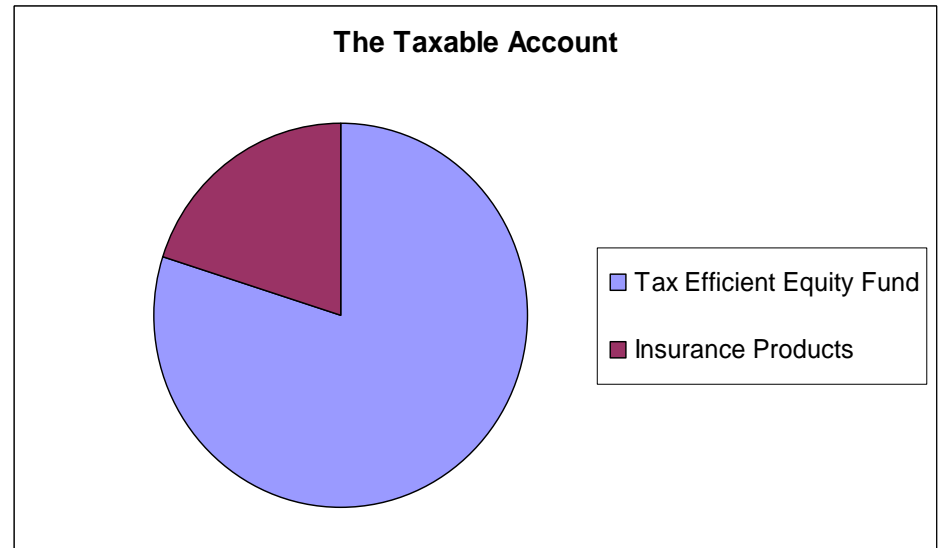
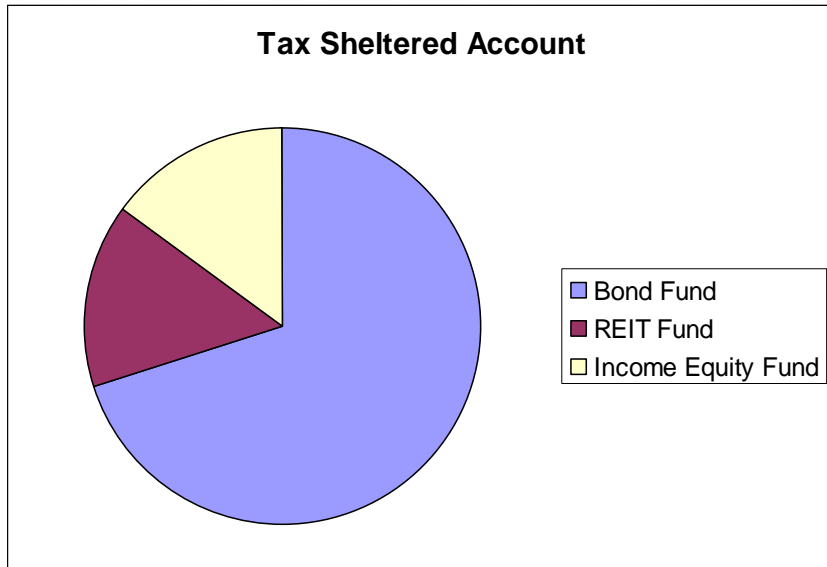
# One Paradigm; Many Implementations

# The Model Portfolio

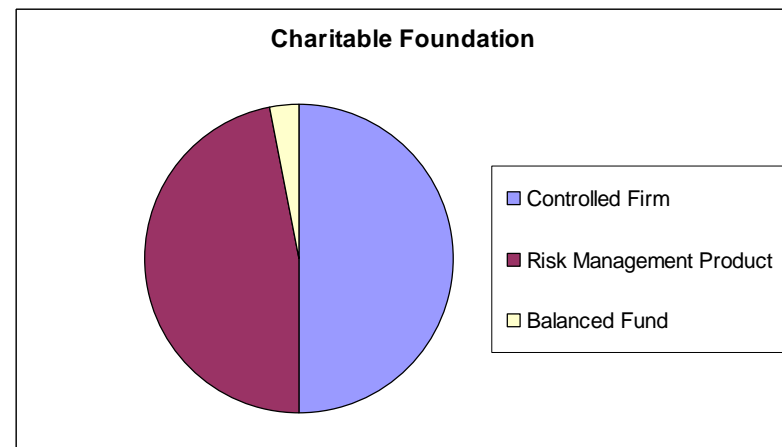
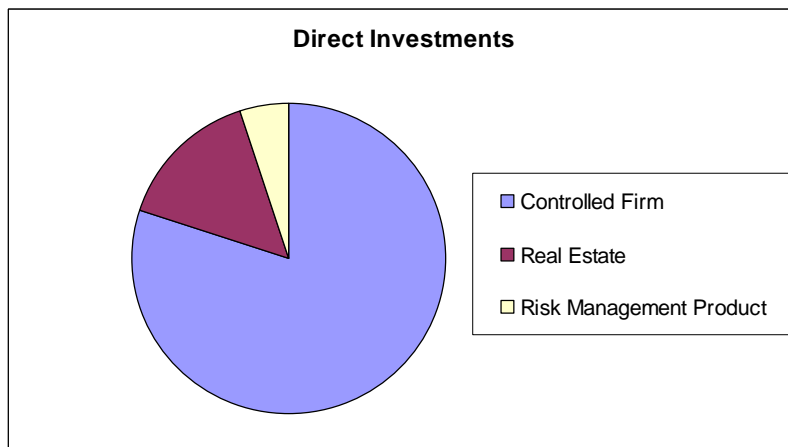
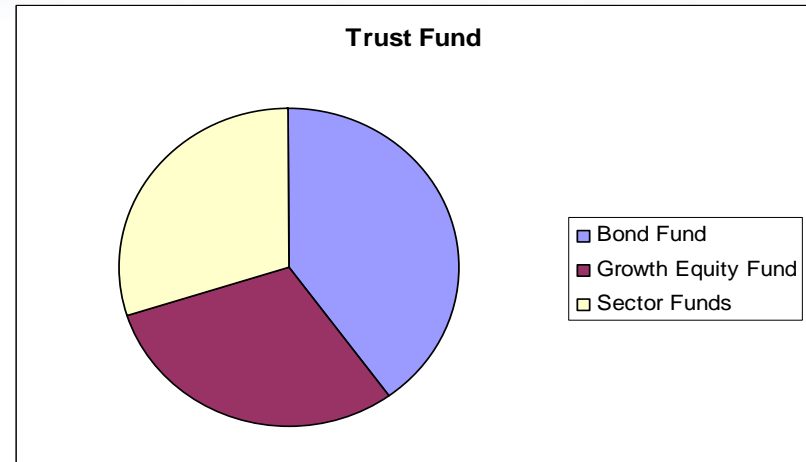
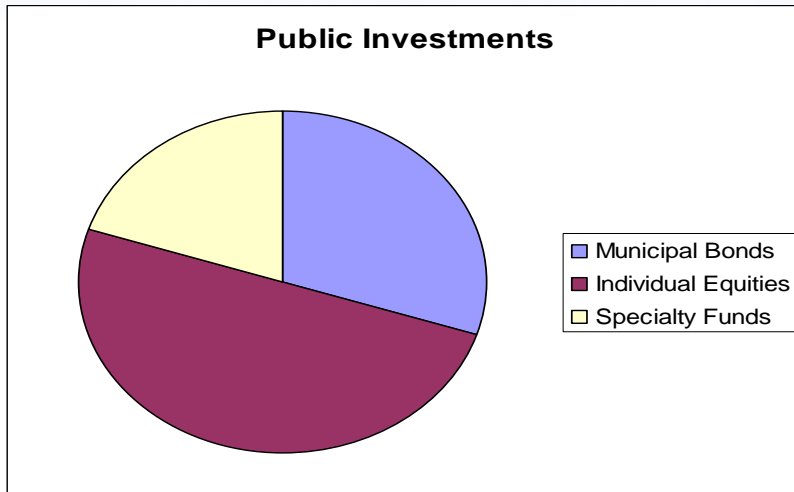
## A Portfolio of Funds Customized to the Client's Goals

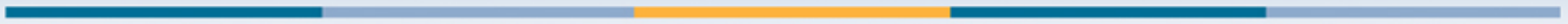


# The Simple Managed Household



# The Complex Managed Household





# Value Proposition

## For The Firm

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- **An investment paradigm which scales from call center to private bank**
- **An investment paradigm that structures a wide range of product**
- **An investment paradigm that aligns to economic fundamentals**
- **A safe basis for technology investment**

## For the Advisor

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- **Embeds the advisor with the client**
- **Shifts focus from beating the *ex post* benchmark to executing the investment plan**
- **Aligns process with message**

## For the Client

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- **Aligns capital with goals**
- **Brings financial life into focus and under control**
- **Aligns fees with the service desired**