Creating Your Own Personalized Wealth Plan With PRISM

AMERICAN ASSOCIATION OF INDIVIDUAL INVESTORS®

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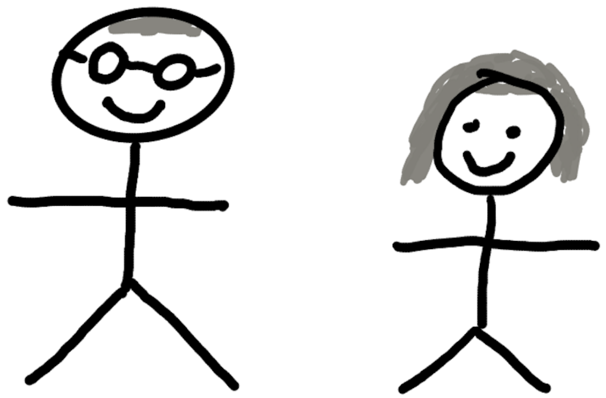
The PRISM Wealth-Building Process provides a framework for aligning your investment decisions with your goals.

The five steps of PRISM empower you to create a personalized investment plan and have the confidence to follow it.

PRISM:
The Wealth-Building Process

Let's Follow Bob and Jane Through PRISM

- A recently retired couple
- Receive Social Security and pension benefits
- Have $1.5 million in savings
- Married with kids and grandkids



Step 1:
Prioritizing Your Goals

Why Start With Goals?

- They define the reason you are investing
- Identifying and stating your goals brings clarity and purpose to the rest of the investing process
- The cost, timing, spending duration and priority of each goal drive all other decisions

Bob and Jane’s Goals

Goal	Number of Years Away	Spending Duration	Priority	Estimated Cost	Comments
Pay for retirement	Now	30 years	1	$2.5 million	Social Security and pension income should be sufficient
Help with older grandchild's college expenses	8 years	4 years	2	$50,000	Do first, but balance with younger grandchild
Help with younger grandchild's college expenses	12 years	4 years	3	$50,000	Try to proportionately match with first grandchild
Leave an inheritance	30-35 years	Zero	4	$1 million	Invest aggressively to grow for heirs

Step 2:
Recognizing Your Risk Tolerance and Allocation

Risk Tolerance and Asset Allocation

- Risk considers the timing of when assets will be needed, the financial ability to withstand drops in portfolio value and the psychological ability to cope with volatility

- Allocation is the mix of asset classes and asset class groups used to achieve your goals

Assessing Your Risk Tolerance

Goal: ______________________________

This worksheet will help you assess how much risk you should take to achieve a specific goal based on the timing of the goal (both when it will be reached and how long it will last) and your psychological and financial ability to withstand market volatility. Enter the number of points for each of the answers and total the scores for each section. See the online article for an interactive spreadsheet. Note: If investing for more than one goal, fill out a separate Risk Tolerance Worksheet for each goal.

Timing of Goal

How far out into the future is the goal?

Short-term — Five years or less	1 ___
Intermediate — Five to 10 years	3 ___
Long-term — More than 10 years	6 ___

Over what time period do you anticipate spending money on the goal?

Short-term — Five years or less	1 ___
Intermediate — Five to 10 years	3 ___
Long-term — More than 10 years	6 ___

Relative to your wealth, how large of a withdrawal will your goal require over a period of five years or less?

High — More than 25% of wealth	1 ___
Moderate — 10% to 25% of wealth	3 ___
Low — Less than 10% of wealth	6 ___

Timing Score (total of scores above) ___

Based on your score, your timing risk is:

Short-term	3–5
Intermediate	6–11
Long-term	12–18

Financial and Psychological Risk

During drops in the stock market, have you:

Significantly reduced your exposure to stocks and stock funds	1 ___
Somewhat reduced your exposure to stocks and stock funds	3 ___
Maintained your allocation or bought more stocks	6 ___

How much of your spending needs are covered by non-portfolio income?

None	1 ___
Some	3 ___
All	6 ___

How would you describe your knowledge of key investing concepts?

Basic/Low	1 ___
Moderate	3 ___
High	6 ___

Financial/Psychological Tolerance Score (total of scores above) ___

Based on your score, your financial and psychological tolerance is:

Low	3–5
Moderate	6–11
High	12–18

Bob and Jane’s Risk Tolerance

- Their goal is helping with education
- If grandkids are young, the timing of goal is long term with a short-term spending duration
- Low withdrawal amount relative to wealth
- Moderate psychological risk and investing knowledge
- All spending comes from portfolio

Bob and Jane have a long-term timing risk (inflation matters more than volatility)

and

An intermediate-term financial/psychological risk (goal funded by portfolio and history of reducing exposure to stocks during past bear markets)

They Choose an Aggressive Allocation

Aggressive Investor	Moderate Investor	Conservative Investor
90% Diversified Stock	60% Diversified Stock	40% Diversified Stock
Suggested Allocation Breakdowns	**Suggested Allocation Breakdowns**	**Suggested Allocation Breakdowns**
20% Large-Cap Stocks	20% Large-Cap Stocks	20% Large-Cap Stocks
20% Mid-Cap Stocks	15% Mid-Cap Stocks	10% Mid-Cap Stocks
20% Small-Cap Stocks	10% Small-Cap Stocks	0% Small-Cap Stocks
20% International Stocks	15% International Stocks	10% International Stocks
10% Emerging Markets Stocks	0% Emerging Markets Stocks	0% Emerging Markets Stocks
10% Intermediate Bonds	30% Intermediate Bonds	40% Intermediate Bonds
0% Short-Term Bonds	10% Short-Term Bonds	20% Short-Term Bonds
Allocations	**Allocations**	**Allocations**
10% Fixed Income	40% Fixed Income	60% Fixed Income
90% Diversified Stock	60% Diversified Stock	40% Diversified Stock

Step 3:
Identifying Your Investment Management Preferences

Factors Influencing Investment Management Preferences

- Desire to handpick securities versus relying on investment professionals
- Restrictions on what you can invest in [e.g., a 401(k) plan, employer rules, etc.]
- Other constraints (time available to do research, level of knowledge, interest, etc.)
- Any tasks assistance needed with?

Investment Management Preferences Questionnaire

1. **How much control do you want in determining which investments are held in your portfolio?**
   - ❑ Complete
   - ❑ A mix of self-directed and an adviser
   - ❑ Just keep me informed about my portfolio

2. **Do you prefer an active approach to investing, a passive approach (indexing) or a blend of the two?**
   - ❑ Active (try to beat the market)
   - ❑ A blend (a mix of active and passive strategies)
   - ❑ Passive (indexing/tracking the market)

3. **Are there any constraints on your strategy?**
   - ❑ Limitations on what you can own [e.g., 401(k) plans, job-related restrictions, etc.]
   - ❑ Trading restrictions
   - ❑ Trusts or partnerships
   - ❑ Social or religious beliefs
   - ❑ Other: ______________________
   - ❑ None

4. **How comfortable are you in researching and following investments?**
   - ❑ Enjoy researching and analyzing stocks
   - ❑ Enjoy researching and analyzing bonds
   - ❑ Content looking at mutual funds or exchange-traded funds (ETFs)
   - ❑ Not interested

5. **How often would you like to review your holdings?**
   - ❑ Daily
   - ❑ Weekly
   - ❑ Monthly
   - ❑ Quarterly
   - ❑ Annually

6. **Based on your answer to Question 5, do you have the available time to stick to that schedule?**
   - ❑ Yes
   - ❑ No

7. **How would you describe your investing knowledge?**
   - ❑ Good
   - ❑ Moderate
   - ❑ Low (but I'm learning)

8. **What tasks do you need a professional to assist you with?**
   - ❑ Taxes
   - ❑ Estate planning
   - ❑ Financial planning/portfolio review
   - ❑ Investment selection
   - ❑ Other: ______________________
   - ❑ None

Types of Investors

- Fully Hands-On: Handpicks stocks and bonds
- Partially Hands-On: Combines individual securities with mutual funds and exchange-traded funds (ETFs)
- Index: Prefers index mutual funds and ETFs
- Fund: Considers actively managed funds
- Combo hands-on/adviser: Combines using an adviser with personal control of investments
- Bolt-on approach: Hires specialists as needed
- Adviser: Adviser or planner makes decisions

Considerations for Bob and Jane

- 529 college savings plans may limit investment options
- They may want to consult with a professional well-versed on financial aid programs
- They may also need to work with an estate attorney and a tax professional
- Personal preferences for active or passive investing will play a role

Bob and Jane opt for index funds, given low cost and options provided in the 529 plans.

They classify themselves as bolt-on investors, given need to consult on financial aid and estate planning issues.

Step 4:
Selecting Your Investments

Top-Down Approach

- Seek out investments matching allocation needs (e.g., large-cap stocks, bonds, etc.)
- Narrow the scope of potential investments based on investment management preferences
- Overlay any style preferences (e.g., value)
- Follow well-defined buy-and-sell rules

Portfolio Composition and Notes

Equities	Portfolio Allocation		Strategies, Types of Investments and Rules
Large-Cap Stocks		%	
Mid-Cap Stocks		%	
Small-Cap Stocks		%	
International Stocks		%	
Balanced/Target-Date Fund Portion		%	
Other:		%	
Total Equity Allocation	0	%	
Fixed-Income Allocation			
Short-Term		%	
Intermediate-Term		%	
Long-Term		%	
Balanced/Target-Date Fund Portion		%	
Other:		%	
Total Fixed-Income Allocation	0	%	
Other Assets			
		%	
		%	
		%	
Total Other Assets	0	%	
Cash Equivalents			
Checking/Savings		%	
Money Market		%	
CDs		%	
Total Cash Equivalents	0	%	
Total Allocation	0	%	

Bob and Jane's Selection Process

- Match asset allocation needs to 529 plan offerings
- Seek out index funds within each asset class group first, if available
- Check performance and expense ratios against peers using Mutual Fund Evaluator
- Read prospectus to understand strategy
- Monitor returns, allocation and expense ratios at regular intervals

If Bob and Jane were to handpick stocks instead, they would still follow the same basic process.

The difference would be the rules they follow for identifying, analyzing and buying/selling stocks.

Step 5:
Monitoring Your Portfolio

Two Parts to This Step

- Review your portfolio to determine if any investments violate sell rules and to ensure allocation is close to target

- Ask whether any life stage or family changes warrant a review of goals and risk tolerance

Mutual Funds Review

- Has the objective or strategy changed?
- How do returns compare to fund peers?
- Are the expense ratio and tax-cost ratio still low or reasonable?
- Any changes in fund management?
- Bob and Jane should also look for any changes in the 529 plan's offering

Portfolio Review Checklist

Stocks		
Frequency of reviewing	____________	(Weekly, monthly, quarterly, etc.)
Any meeting a sell rule?	____________	(Y/N) (See sell rules; consider removing those meeting a sell rule)
Any change in strategy?	____________	(Y/N) (If yes, revise buy and sell rules)
Date for next review	____________	(State date)
Reminder set for next review?	____________	(Y/N)
Bonds		
Frequency of reviewing	____________	(Monthly, quarterly, annually, etc.)
Any meeting a sell rule?	____________	(Y/N) (See sell rules; consider removing those meeting a sell rule)
Any change in strategy?	____________	(Y/N) (If yes, revise buy and sell rules)
Date for next review	____________	(State date)
Reminder set for next review?	____________	(Y/N)
Mutual Funds		
Frequency of reviewing	____________	(Monthly, quarterly, annually, etc.)
Any meeting a sell rule?	____________	(Y/N) (See sell rules; consider removing those meeting a sell rule)
Any change in strategy?	____________	(Y/N) (If yes, revise buy and sell rules)
Date for next review	____________	(State Date)
Reminder set for next review?	____________	(Y/N)

Life Stage and Family Changes

- Any change in Bob or Jane’s health?
- Has their wealth and retirement income significantly risen or decreased?
- Any change in housing? (downsizing, move to a retirement community, etc.)
- Still just two grandkids, or is there a third?
- Any change to the grandchildren’s health or college expectations?

Life Stages Checklist

Over the past year, have any of the following happened?

Family	Yes/No	Who	Does It Impact Your Goals?	Does It Impact Your Will, Life Insurance or Trusts?	Does It Change a Beneficiary?
Birth/Adoption					
Death					
Marriage					
Separation					
Divorce					
Start or Graduate From College					

Change in Health	Yes/No	Description	Does It Impact Your Goals?	Does It Impact Your Will, Life Insurance or Trusts?	Does It Change a Beneficiary?
You					
Spouse/Partner					
Dependent					
Other Close Relative					

Employment (You or Spouse/Partner)	Yes/No	Description	Does It Impact Your Goals?	Does It Impact Your Will, Life Insurance or Trusts?
New Job				
Change in Compensation				
Job Loss				
Retirement				

Some Final Thoughts

- Your Wealth-Building Process will evolve over time as your goals grow closer and your life changes
- PRISM provides a framework for you to make investment decisions within; its goal is to help you become a more effective manager of your own assets
- If you have multiple goals, prioritize them and complete steps 2, 3 and 4 for each goal

Access PRISM at:

https://www.aaii.com/learnandplan

Watch your email for a chance to participate in a special project involving PRISM.

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Upcoming Webinars

Register at
www.aaii.com/webinars

Individual Investor Show: Picking Right Investments, First Cut Large Growth Funds, and Convertibles

Wednesday, June 23, 2021, 7:30 p.m. CDT

REBROADCAST: Unveiling AAII's Platinum Service

Wednesday, June 30, 2021, 12:00 p.m. CDT
(note special time)