## Contents

<table>
<thead>
<tr>
<th>Acknowledgments</th>
<th>xiii</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preface</td>
<td>xv</td>
</tr>
<tr>
<td>Introduction</td>
<td>1</td>
</tr>
</tbody>
</table>

### PART ONE

**The Integrated Wealth Management Challenge**

#### CHAPTER 1

**Many Interrelated Disciplines**

- Multiple Sources of Capital | 11
- Expanding on the Corporate Analogy | 11
- Multiple Interactions | 13
- Educating Future Generations and Wealth Transfers | 16
- The Make or Buy Decision | 18
- The Creation of a Wisdom Council | 20
- Summary and Conclusions | 21

#### CHAPTER 2

**An Example of a Crucial Interaction: Tax-Efficiency**

- The Tax Bite and Its Impact on Compound Returns | 24
- A New Analysis of Capital Losses | 25
- An Expanded Definition of Active Management | 26
- Applicability to Both Asset and Security Decisions | 27
- Abandoning the Murky Middle: The Barbell Portfolio | 29
- The Potential Role and Limits of Derivative Strategies | 31
- Summary and Conclusions | 33
CONTENTS

CHAPTER 3
The Need for a Financial Interpreter 35
What Makes Markets Work? 36
Asset Classes, Sub-Asset Classes, and Strategies 38
Developing Reasonable Expectations 39
Performance Analysis and Reporting 42
Summary and Conclusions 45

PART TWO
Investment Policy Formulation: Goals-Based Allocation

CHAPTER 4
A Brief Journey through Institutional Theory 49
Five Important Features of the Typical Institutional Investment Organization 50
A Quick Detour via Asset Liability Management 55
Summary and Conclusions 56

CHAPTER 5
Mapping Institutional and Individual Issues 57
The First Crucial Difference 59
A Second Important Difference 61
A Different Way of Defining Risk 62
The Law of Large Numbers 63
Implications 64
Summary and Conclusions 65

CHAPTER 6
Goals-Based Strategic Asset Allocation 67
The Basic Principle 67
Initial Theoretical Objections 70
An Academic Imprimatur 71
A Few Simple Principles 72
It Changes Everything 74
An Interesting Implication 76
Summary and Conclusions 77
PART THREE

Goals-Based Wealth Management Implementation

CHAPTER 7

Dealing with the Implications of the Process 81
Covering a Set Number of Bases 81
Mapping Asset Classes and Strategies to Goals 85
Understanding Limitations 87
Dealing with Client Objections 88
A Three-Phase Process 90
Summary and Conclusions 91

CHAPTER 8

Creating Goals Modules 93
Developing General Capital Market Expectations 93
Describing Sufficiently Generic and Specific Goals 95
Creating Constraints Appropriate to Each Goal 98
Optimizing the Composition of Each Module 103
A Possible Example 107
Summary and Conclusions 109

CHAPTER 9

Working to Understand Client Goals and Goal Allocations 111
Identifying Crucial Initial Client Constraints 111
Determining Whether Any Constraint Is a Show-Stopper 114
Time Horizon and Required Probability of Success 115
Settling on the Appropriate Module 120
Sizing Assets Needed to Meet Each Goal 122
A Possible Example 123
Summary and Conclusions 127

CHAPTER 10

Finalizing a Goals-Based Policy Allocation 129
Two Possible Approaches 129
Working from Assets and Modules to a Whole 131
Description of Deviation Ranges 132
Our Original Example, Modified and Completed 136
Summary and Conclusions 143
CONTENTS

CHAPTER 11
Managing the Portfolio Tactically 149
The Complexity in the Absence of a Systematic Tool 150
Introducing the Concept of a Tilt Model 153
Five Possible Variations on the Same Theme 156
A Major Pitfall 159
A Possible Example 161
Summary and Conclusions 169

CHAPTER 12
Portfolio Reporting 173
The Current Challenge 173
A Simple Analogy 178
Adding Taxes Makes Things Even More Complex 180
Summary and Conclusions 181

PART FOUR
Managing an Advisory Practice

CHAPTER 13
The Currently Typical Firm Structure 187
Many Chiefs and Few Indians 188
The Root of the Challenge 189
Contrary Examples in the Legal and Medical Fields 191
A Simple Illustration 193
Summary and Conclusions 195

CHAPTER 14
Teams Versus Individuals 197
Too Many Disciplines for Anyone to Master All of Them Fully 197
Specialists, When Left Alone, Lead to Silos 199
The Crucial Role of the Team Coach 200
Only One Individual Can Play That Role 203
Summary and Conclusions 204