

The investment objectives of the client

*Desk research by Simona
Chioran*

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Introduction

- Investment objectives are related to what the client wants to achieve with the portfolio of investments.
- Objectives define the purpose of setting the portfolio.
- Generally, the objectives are concerned with return and risk considerations.
- These two objectives are interdependent as the risk objective defines how high the client can place the return objective.

Introduction

Investment Objectives

- These are the fund's financial goals, which are reflected in the types of securities chosen to achieve those goals.
- Types of investment objectives include long-term capital growth, stable income, high total return, etc.
- Fund companies cannot change these objectives unless investors of the fund consent to the changes through a vote.

Introduction

- Marketability / Liquidity Objectives
 - Many of the investments are reasonably illiquid, which means they cannot be immediately sold and easily converted into cash.
 - Achieving a degree of liquidity, however, requires the sacrifice of a certain level of income or potential for capital gains.

Introduction

- Marketability / Liquidity Objectives
 - Common stock is often considered the most liquid of investments, since it can usually be sold within a day or two of the decision to sell.
 - Bonds can also be fairly marketable, but some bonds are highly illiquid, or non-tradable, possessing a fixed term.

Introduction

- Marketability / Liquidity Objectives

- Similarly, money market instruments may only be redeemable at the precise date at which the fixed term ends. If an investor seeks liquidity, money market assets and non-tradable bonds aren't likely to be held in his or her portfolio.

Introduction

- The following list of common tax planning strategies can help some taxpayers minimize their taxable liabilities each year:
- Increase Retirement Contributions
- Transition Non-Qualified Investments
- Donate to Charity
- Switch to OANDA – Open an Account

Types of Investment Objectives

- Risk objectives are the factors that are associated with both the willingness and the ability of the investor to take the risk.
- When the ability to accept all types of risks and willingness is combined, it is termed as risk tolerance.
- When the investor is unable and unwilling to take the risk, it indicates risk aversion.
- Return Objective

Defining Investment Objectives

There are four basic investment objectives:

- preservation of capital,
- current income,
- current growth and
- total return.

Defining Investment Objectives

- Preservation of Capital
- Wealthy clients and those in the spending and gifting phases are most interested in preservation of capital.
- This is the most conservative investment strategy, and it is intended solely to avoid risk of loss. Less risk, of course, means less return.
- Low-yielding bonds and money market funds are the foundation of a capital preservation strategy.

Defining Investment Objectives

Current Income

- Conversely, current income is the strategy focused on getting returns on investment as quickly as possible.
- High-interest bonds and high-dividend stocks are its mainstays.

Defining Investment Objectives

- Current Growth

- The current growth strategy is intended for investors with time to "get in on the ground floor" of the "next big thing".

- As risky as that sounds, it is not a bad strategy for someone who understands the potential downside.

- Investing in any one growth stock is adventurous, but the idea is to collect an array of these emerging stocks - generally shares of small companies in new businesses - in a portfolio.

Defining Investment Objectives

- Current Growth

- The expectation is that a couple of these investments will turn out to be blockbusters, which will more than offset the ones that crash and burn.

- A growth stock generally does not offer a dividend, and the entire payoff with this strategy is in selling it years from now for many multiples of what you paid for it today.

Defining Investment Objectives

- Total Return

- Total return investing factors in both capital appreciation - how fast the share price grows - and dividend yield. It also considers the tax implications for the individual investor: a tax-free return of 5% is as good as a taxable dividend of 7% to someone in the 40% bracket. Total return is sometimes called growth-with-income.

- Just as clients do not necessarily fit into convenient investment phases, they tend not to have just one objective.

- Your goal should be to blend all their objectives proportionately into their individual portfolios.

Individual Factors

- Customer's expectation
- Change in customer's expectation
- Expected return / target return (2-3% above inflation)
- Expected income and expense level
- Time horizon
- Risk profile of individual customer
- Tax minimisation

Individual Factors

- Age
- Family Status
- Education
- Occupation
- Tax situation
- Financial situation

● **Establish the Investment Objectives of an individual or corporate client**

- 1. Establish the client's current investment position and aims by collecting client data for a client investment profile.
- 2. Define the specific investment objectives
- 3. Establish the client's knowledge and experience to assess their ability to understand investment risks and the level of risk they are willing to accept.
- 4. Establish the client's liquidity needs from the portfolio.
- 5. Agree critical time horizons of the client that may influence choice of investments.

•Establish the Investment Objectives of an individual or corporate client

- 6. Establish the client's tax status and any source of tax advice that they use.
- 7. Consider other relevant aspects of the client's personal or corporate circumstances.
- 8. Draw up a client proposal that outlines all key aspects of their investment objectives and recommends an investment strategy.
- 9. Discuss the proposed investment strategy with the client to identify any areas for refinement.
- 10. Finalise the client's investment strategy.

Conclusions

- A financial advisor / portfolio managers design and manages the portfolio for an investor after formally documenting the investment policy statement.
- The job starts from the moment the investor articulates his objectives and constraints. It is for the benefit of both the investor and the manager that the objectives and constraints are correctly determined and not just documented for formality.
- The more diligence is paid while formalising objective and constraints, the better is portfolio aligned to the needs of the investor.

THANK YOU.

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