

# Personalized Distribution Strategy

“Design is not just what it looks and feels like. Design is how it works.”

Steve Jobs

## Cues From Steve Jobs: Game Changing Income Distribution Strategies

Steve Jobs’s legacy is of innovation, creativity, and perseverance. He led Apple to market dominance by fostering its core strength of knowing how to make sophisticated technology comprehensible, relevant and coveted.

Many clients feel that investments are as complex as technology. A lack of understanding in how an income distribution strategy works can lead to client dissatisfaction, advisor frustration, and assets lost.

By following Jobs’s lead and approaching income strategies from the clients’ perspective, the paradigm shifts. Clients’ income and asset accumulation needs are met and they become empowered to make decisions that will lead to success. This is what a good income strategy should do, take the complex and make it simple.

Apple’s game changing approach was actually quite basic. It made the user experience the center of gravity that pulled together the technology, design elements, and marketing.

In the income distribution context, a positive client experience looks like this:

### Clients:

- Feel secure.
- Know money is earmarked for spending and their investment portfolio is properly managed for future needs.
- Embrace their role in making the solution succeed.
- Are periodically informed of how actual spending impacts goals.

### Advisors:

- Design and customize strategies with ease.
- Communicate those strategies in a way that resonates with clients.
- Feel secure in knowing the right decisions are made with respect to growing the portfolio and replenishing clients’ cash positions.
- Can replicate the process among an array of clients with differing needs and means.

### Design Simple Solutions

The goal is to design customized withdrawal strategies that manage clients’ investment portfolios while generating income to meet spending needs. The solution should be understandable to the client, facilitate ongoing client engagement, and be easy for you to implement across your entire book of business.

One of the simplest yet effective strategies involves a portfolio that delivers a “paycheck” for a specific period. It also manages reserves in a well-diversified portfolio constructed in accordance with the client’s risk tolerance.

As the client accesses cash, it is replenished based on careful evaluation of trends in the market and a careful analysis of income and dividend-producing securities within each portfolio. To avoid replenishing liquid cash reserves at inopportune times, clients’ personalized cash reserves should be thoughtfully managed based on positive technical trends in the market.

This strategy resonates with clients because, for many, it harkens back to their grandparents’ envelope approach — one envelope for spending, one for saving. Clients manage the spending; professionals manage the savings and decide when and how to replenish cash positions.

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“Simple can be harder than complex: You have to work hard to get your thinking clean to make it simple. But it’s worth it in the end because once you get there, you can move mountains.”

Steve Jobs

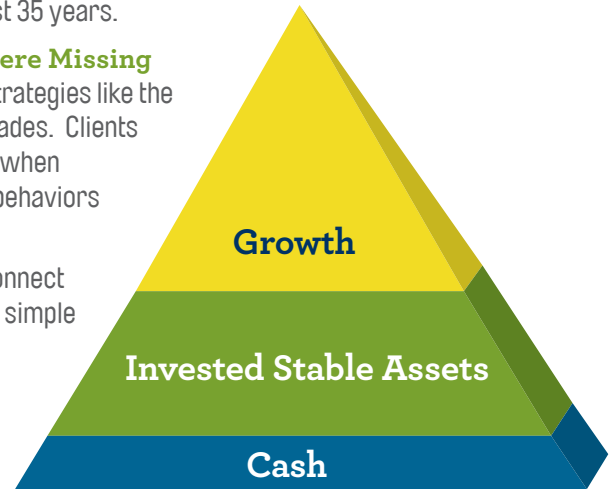
Spending is crucial to design and execution. Monte Carlo simulations can help advisors land on client appropriate spend-rates. These simulations are also helpful in illustrating the interplay between spending and asset longevity.

Clients understand the concept when it is modeled for them simply, e.g., If the client spends \$2,000 a month, the assets will last 30 years at a 3% return. If only \$1,500 a month is spent, the assets will last 35 years.

### Show Clients What They Were Missing

Investment advisors have used strategies like the one described previously for decades. Clients seem to understand the strategy when presented; yet their subsequent behaviors belie them.

Helping the client bridge the disconnect may be best accomplished with a simple graph. Group the assets into categories that align with client goals, and allocate dollars (not percentages) to each category.



Source: Brinker Capital

### Empowerment

Many withdrawal strategies fail because spend-rates are only discussed annually. In order for income distribution goals to be achieved, the client has to internalize the relationship between spending and long-term success.

According to the Brinker Barometer\* online survey conducted in October 2011, 62 percent of advisors indicated that a greater focus on goals-based reporting unique to client needs would be most helpful to their business. Comparisons of portfolio performance against market-based benchmarks was a distant second at 25 percent.

Reports that communicate spend-rate information along with portfolio performance serve as a catalyst for client engagement. By using behavioral finance concepts and displaying information simply, clients suddenly get the message and are empowered to make good decisions.

Here again, we can take a cue from Steve Jobs and use a tool that is enormously successful in the digital world – icons. Icons command engagement by connecting emotionally with the data, and prompting action when necessary.

Here’s how. A client reviewing a Brinker Capital Personalized Distribution Strategy report immediately focuses on two things. One is an icon. It’s a familiar traffic light. The client is instantly oriented with the meaning behind the data, and knows instinctively what to do.



You are outspending your stated goals and objectives. We recommend you meet with your advisor.

We recommend that you meet with your financial advisor to evaluate your current plan.

**Your account is on track for meeting your stated goals and objectives.**

Source: Brinker Capital

The second way to simplify the message and empower clients is to project how long their portfolio will last given current market conditions and actual spend-rates. Using a Monte Carlo analysis, client reports can provide that one nugget of information clients really need – how long the portfolio will last. When the data is reduced to its simple essence, clients feel more in control and are empowered to make better decisions.

\*The October 2011 Brinker Barometer Survey had 427 participants.

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“A lot of times people don’t know what they want until you show them.”

Steve Jobs

## Achieve Scale

Client demand for distribution strategies will increase as more clients near retirement, creating an enormous opportunity for advisors to differentiate themselves.

In order to seize that opportunity, however, advisors must have a systematic approach to articulate an appropriate spend-rate, become skilled at managing cash reserves and determining when and how to replenish, and develop tools that effectively communicate progress towards goals.

Many advisors partner with an investment management firm to achieve scale. The investment management firm helps advisors articulate investment and spending goals, structures appropriate investment solutions, and monitors the portfolios. The advisor is freed to better guide clients and grow business.

If you are a financial advisor and would like to learn more about how to design and implement game changing personalized income distribution strategies for your clients, please contact a member of Brinker Capital’s Client Service Team at 1-800-333-4573.

Investors should contact their financial advisor to review their financial goals, objectives and specific situation prior to making any investment related decisions.

## Disclosure

The chart/pyramid shown on Page 2 is for illustrative purposes only. The Personalized Distribution Strategy presents account information in terms of stable assets versus growth assets. Stable Assets are defined as investments which exhibit characteristics of below-average risk and low return potential, such as cash and fixed income. Growth Assets are defined as investments which exhibit characteristics of average to above average risk with a higher return potential, such as domestic equities, international equities and commodities.

For more information about Brinker Capital and our investment philosophy, including information on fees, you may request a copy of our Form ADV Part 2A from a Brinker Capital Client Services representative at 800-333-4573 or at [clientservice@brinkercapital.com](mailto:clientservice@brinkercapital.com).

## About Brinker Capital

Brinker Capital, Inc. is a leading independent investment management firm which provides managed account investment programs to individual and institutional investors through financial advisors. Brinker was founded in 1987 by Charles Widger and is located in suburban Philadelphia.

## About the Brinker Barometer

The Brinker Barometer gauges the views of our advisor community with respect to economic, market and investor trends. Advisors participate in the survey and the results are published on a quarterly basis. The October 2011 survey had 427 participants.



[brinkercapital.com](http://brinkercapital.com)

800.333.4573

1055 Westlakes Drive / Suite 250 / Berwyn, PA 19312