wealth

PORTFOLIO MANAGEMENT

The Ultimate Return

The time has come for a new asset allocation paradigm

by Michael J. Nathanson

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Michael Nathanson, Chair and Chief Executive Officer of The Colony Group, is a highly respected and experienced leader in the wealth management industry. He is relentlessly dedicated to bringing meaning and joy to the lives of Colony Group clients and team members by fostering a culture that values lifelong learning, cultivates innovation, and offers opportunities to live lives full of passion and purpose.

If we seek to optimize investment returns not just on our financial portfolios but on our lives, we must expand the way we think about investing to include both financial and non-financial asset classes.

For decades, it's been settled that, along with market movements, asset allocation is the primary driver of investment returns. For this reason, modern portfolio management almost always begins by identifying the investor's goals and then formulating allocation ranges for diverse asset classes (such as equities or fixed income) specifically coordinated to achieve those goals over time.

Typical goals include preserving capital, supporting family members (sometimes across generations), donating to important causes, acquiring assets, and other goals that translate easily into financial targets. But most people's goals are not limited to financial goals. In fact, a growing body of research suggests that, even among the wealthy, most people's top goals transcend money and are principally focused on living healthy, happy lives, sharing experiences with others, and creating meaningful legacies.

A few years ago, U.S. Trust conducted a survey of households with at least $3 million of investable assets and determined that the respondents' top priorities – ahead of financial security – were health and family. Fidelity Investments' *advice value stack* utilizes a pyramid structure to illustrate that many clients find their advisors to be more valuable if they can deliver peace of mind and fulfillment (the top tiers of the pyramid), and not just asset management and financial planning (the bottom tiers of the pyramid).

This reality suggests an updated paradigm for how we think about asset allocation – one that continues to rely on modern portfolio management to achieve financial goals but that also acknowledges a need to make and manage investments in three new asset classes: health, spiritual income, and legacy.

If we can see personal health as an asset class, then the investments within that class could include personal training, exercise classes, home gym equipment, club and gym memberships, nutrition classes, mindfulness and wellness experiences, meditation, and early-morning runs. The list will vary depending on the goals of the investor.

Spiritual income is a term often associated with our jobs. When our work offers us something beyond financial income, we often call that something spiritual income. But we can also apply this concept to life generally. When we have experiences that generate meaning and happiness, we can say that those experiences produce spiritual income for us.

Thinking about spiritual income as an asset class requires us to allocate time and money to experiences that generate spiritual income. Much like a list of bonds and other securities comprising the traditional fixed-income asset class, the spiritual-income asset class might include trips with friends and family, investments of time and money in passions and hobbies, furthering educational pursuits, or just budgeting time to see someone special.

When people talk about creating a meaningful legacy, they typically mean that they want to leave the world changed for the better, often with their successors knowing what they stood for during their lives. As an asset class, legacy investments might include volunteer work for, or financial contributions to, important philanthropic organizations. Or they might include starting a family foundation, educating and sharing values with family members, starting a new business, or even writing a book.

None of this is to say that successful portfolio management strategies need to change; nor is it to say that people should simply make lists of their non-financial goals and accomplishments. The point is to reimagine our portfolios – or more broadly, our wealth – to include not only assets of a financial nature but also the investments we make into equally valuable assets such as our health, happiness, and legacy.

We must monitor all the asset classes within our portfolios, consistent with our goals, and we must rebalance our portfolios when any asset class gets too large or too small relative to its target. This principle of rebalancing has long been a fixture of successful portfolio management. Now it needs to become a fixture of successful life management too.