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The Future of Goals-Based Investing

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Table of Contents

List of Figures

List of Tables

Summary and Key Findings

This report examines the place of goals-based investing within wealth management today and its likely place in the future. It discusses the industry shift toward holistic advisory models, which have been conducive to the adoption of goals-based investing, and it discusses how major wealth managers have adopted goals-based investing in their advisory models. The report also examines the four major industry approaches to goals-based investing, the role that asset-liability matching methodologies play in these approaches, and how goals-based investing is changing how wealth managers think about client risk. Finally, the report reviews the goals-based investing applications of six vendors, highlighting their differentiating features and their strengths and weaknesses.

The key findings from this report follow:

- **Financial planning has become the dominant advisory model:** Over the past two decades, wealth managers have shifted their advisory model away from investments toward one centered on financial planning and the provision of holistic advice.
- **Most portfolios are disconnected from financial plans:** Portfolio construction today is typically a mean-variance optimization process based on clients' tolerance for volatility; such portfolios do not necessarily support the achievement of clients' long-term goals.
- **In goals-based investing, the portfolio is an expression of the financial plan:** True goals-based investing employs asset-liability matching to build portfolios, matching assets (clients' investments) with liabilities (the cash flows associated with clients' goals).
- **Goals-based investing takes a variety of forms:** Wealth managers practice goals-based investing in very different ways; the four main versions used by advisors are the Risk Profile Model, the Risk Bucket Model, the Simple Glidepath Model, and the Optimized Asset Allocation Model.
- **Many of the largest wealth managers have adopted goals-based investing:** Five of the 10 largest wealth managers in the world have adopted advisory approaches in which goals-based investing is a core part of their value proposition.
- **The leading goals-based investing applications employ very different methodologies:** Four vendors' applications use the Optimized Asset Allocation Model, three employ

the Risk Profile Model, and one is soon to release functionality enabling the Risk Bucket Model. Moreover, across all vendors, there are varying levels of functionality with respect to client reporting, front- and back-end integration, scenario modeling, ability to manage taxation and asset location, extent of customization allowed, etc.

- **Independent advisors are the key to the future of goals-based investing:** If goals-based investing is to live up to its potential, it will have to make deeper inroads with the independent advisor community—registered investment advisors (RIAs) and independent broker-dealers (IBDs).

Introduction

Over the past decade, goals-based investing has gained a significant foothold within wealth management. Although goals-based investing hasn't received the sort of attention lavished on the latest industry fashions such as GenAI or direct indexing, the fact is that some of the most innovative developments in the industry—and potentially some of the most transformative—are happening in the area of goals-based investing. Within wealth management, goals-based investing expresses itself in myriad ways. There are many versions of goals-based investing currently practiced in the industry, and many vendors with goals-based investing applications are fighting to establish their solution as the industry leader.

This report examines the place of goals-based investing within wealth management today and its likely place in the future. It discusses the industry shift toward holistic advisory models, which have been conducive to the adoption of goals-based investing, and it reviews the different versions of goals-based investing currently in use. It also discusses how major wealth managers have adopted goals-based investing in their advisory models. Finally, the report reviews the goals-based applications of six vendors, highlighting their differentiating features and their strengths and weaknesses.

This report will be valuable for industry participants who wish to educate themselves about goals-based investing and its potential, who wish to understand the different versions of goals-based investing used by advisors, or who wish to understand the differences between the major vendors of goals-based investing software. This report will also be valuable for goals-based investing vendors who wish to deepen their understanding of the competitive environment and the industry trends affecting the adoption of goals-based investing.

Methodology

This study is based on interviews with 23 executives at a broad range of wealth managers and vendors to the wealth management industry. Participating financial institutions included Bank of America Merrill Lynch, Bernstein Private Wealth Management, Charles Schwab, J.P. Morgan, Kestra Financial, Northern Trust, Wells Fargo, and Wilmington Trust. Participating vendors included AdvisorEngine, Conquest Planning, Envestnet, MSCI, Nebo Wealth, Ortec Finance, and Voyant. To complete the picture of the goals-based investing landscape, Datos Insights reviewed and utilized insights from academic literature, industry white papers, and specialist publications on the topic of goals-based investing.

About Datos Insights

Datos Insights is an advisory firm providing mission-critical insights on technology, regulations, strategy, and operations to hundreds of banks, insurers, payments providers, and investment firms—as well as the technology and service providers that support them. Comprising former senior technology, strategy, and operations executives as well as experienced researchers and consultants, our experts provide actionable advice to our client base, leveraging deep insights developed via our extensive network of clients and other industry contacts.

Contact

Research, consulting, and events:

sales@datos-insights.com

Press inquiries:

pr@datos-insights.com

All other inquiries:

info@datos-insights.com

Global headquarters:

6 Liberty Square #2779
Boston, MA 02109

www.datos-insights.com

Author information

William Whitt

wwhitt@datos-insights.com