Assessment and Benchmarking for Private Wealth

An appropriate assessment method for private wealth must meet, at a minimum, the following criteria:

1. Risk and return measures must ultimately extend to the question of purchasing power.

2. The tax inputs in the calculations must be idiosyncratic to the specific investor; they cannot be general tax rates.

3. The advisor must have a clear, quantified understanding of at least the minimum wealth and spending levels that must be maintained at all times.

4. If the investor is responsible for other family members or charities, the analysis of the investment plan and its performance should take these people or organizations into account—their available assets, spending/saving, and taxation.

As a start, a performance report might be constructed as follows:

1. Gross return (net of transaction costs) of client portfolio,

2. Return net of management fees,

3. Return net of #2 and implied taxes, and

4. Return net of #2, #3, and inflation.

Summary

Approaches to assessing the performance measurement and benchmarking needs of wealthy individuals need to be comprehensive and need to recognize the highly individualized nature of each investor’s circumstances:

Summary

Investment returns should be reported net of investment expenses, taxes (realized and unrealized), and inflation.

Summary

Taxes should be calculated on the basis of the actual circumstances in the tax year of the report and should take into account ex-portfolio tax factors.

Summary

Measures of risk need to be adjusted for the actual tax circumstances of the investor and should be reported in the context of the specific shortfall constraints.

Summary

To properly assess a portfolio's purchasing power, measures of wealth accumulation have to take into account inflation and consumption.

Summary

Measures of the long-term adequacy of a plan have to take into account not only the investor's life horizon but also the horizons of relevant others.

Summary

For accurately assessing whether the investor’s goals are likely to be met by the plan, the advisor must use an integrated approach that considers *all* the entities holding the investor’s monies.