Val Sili, age 22, has just graduated from college and begins making ambitious future financial plans. The four stages of his plan are summarized below. Sili would like to have outside financial advice at each of these stages.

Stage 1—Age 22–26:	Sili plans to work as a software developer in a startup company, where he will earn both a salary and stock options. He will save as much as he can to invest, but his portfolio will be relatively small, and he will be willing to pay only low management fees. Sili would like to use a sophisticated mean–variance optimization technique for asset allocation, although he will limit his investments to exchange-traded funds and mutual funds.
Stage 2—Age 26–30:	Sili will have reached a more senior position in the company. He plans to have accumulated assets of $350,000, and his investment focus will be on building his portfolio. Sili will want help with his increasing financial planning needs and will be able to afford the fees of a professional wealth manager.
Stage 3—Age 30–36:	Sili plans to exercise his stock options to buy a large quantity of the company's stock at a price significantly below its market value. The proceeds should increase his portfolio value to $8 million. Sili will quit his job to start his own software company. Sili will be interested in more sophisticated investments with longer time horizons, greater risk, and less liquidity. He will also want specialized advisers for taxes, legal issues, and investment strategies.
Stage 4—After Age 36:	Sili will sell his software company for $200 million and retire. He will spend his retirement traveling on his private jet and collecting artwork for his collection; therefore, he will need advice on acquiring high-end assets. The substantial increase in the value of his investment portfolio will allow him to have a multi-generational time horizon. He will require a wider range of investment advisory services, including complex tax planning, estate planning, and bill payment services.

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Practice Problem

Q. Determine the client segment or adviser type that is *most appropriate* for each stage of Sili's plan. **Justify** each response.

Determine the client segment or adviser type that is *most appropriate* for each stage of Sili's plan. **Justify** each response.

Stage 1—Age 22–26	**Client Segment/Adviser Type:**
	Justification:
Stage 2—Age 26–30	**Client Segment/Adviser Type:**
	Justification:
Stage 3—Age 30–36	**Client Segment/Adviser Type:**
	Justification:
Stage 4—After Age 36	**Client Segment/Adviser Type:**
	Justification:

Your Answer:
1) Stage 1—Age 22–26

Client Segment/Adviser Type: - ROBO advisor.

Justification:- Since Val Sili, is willing to pay only low management fees and expected to have a very small portfolio. Sili would like to use a sophisticated mean-variance optimization technique for asset allocation, although he will limit his investments to exchange-traded funds and mutual funds. The fee considerations and other requirement suites the ROBO advisor category and ROBO adviser generally includes clients with small portfolios. Robo advisers support asset allocation techniques, implemented via exchange-traded funds and mutual funds.

2) Stage 2—Age 26–30
Client Segment/Adviser Type: Mass affluent segment

Justification:- Since accumulated assets of $350,000 (between $250000 and 1 million) and his investment focus will be on building his portfolio. Moreover, Sili will be able to afford the fees of a professional wealth manager. So, the Mass affluent segment advisor shall suit his requirement.

3) Stage 3—Age 30–36
Client Segment/Adviser Type: High Net-worth segment

Justification:

Since the liquid portfolio shall be of 8 Million and this category **generally includes** clients with investment assets ranging from 1 million to 50 million. Sili will be interested in more sophisticated investments with longer time horizons, greater risk, and less liquidity. Sili shall require a wealth manager with **specialised knowledge and skills and who serves the private wealth clients.** Sili will also want specialized advisers for taxes, legal issues, and investment strategies. This segment shall have a **dedicated team** for all these needs.

4)Stage 4—After Age 36Client

Segment/Adviser Type: Ultra High Net-worth segment

Justification: Ultra High Net-worth segment generally includes clients with a liquid portfolio of more than 50 million who require a wider range of investment advisory services, including complex tax planning, estate planning, and bill payment services and have a multi-generational time horizon.

CFAI Solution

Solution

Determine the client segment or adviser type that is *most appropriate* for each stage of Sili's plan. **Justify** each response.

Stage 1— Age 22–26	**Client Segment/Adviser Type:**	Robo-Adviser (part of the mass affluent client segment)
	Justification:	Robo-advisers support advanced asset allocation techniques, implement typically with exchange-traded funds or mutual funds, and are lower-cost alternatives for relatively small portfolios. During this stage, Sili's portfolio will be relatively small and he will not be able to afford to pay the fees of a traditional wealth management firm. Yet he still wants to use sophisticated analysis for his investment planning. Robo-advisers are his most appropriate option. With their primarily digital client interface and experience, robo-advisers are designed to serve investors with relatively small portfolios at a lower cost than the fees charged by traditional wealth management firms. Robo-advisers enable their clients to use advanced techniques, such as mean–variance optimization, for determining asset allocations, and they implement their strategies typically with exchange-traded funds or mutual funds.

Stage 2— Age 26–30	**Client Segment/Adviser Type:**	Mass Affluent Segment
	Justification:	The mass affluent segment covers asset levels between \$250,000 and \$1 million and serves clients who are focused on building their portfolios and want help with financial planning needs. Now that Sili has a larger portfolio and is able to afford paying fees to a professional wealth manager, he belongs in the mass affluent client segment. With investment assets of \$350,000, Sili's portfolio fits within the asset level range of this segment, typically \$250,000–\$1,000,000. Sili's characteristics during Stage 2 of being focused on building his portfolio and wanting help with his financial planning needs are typical of younger clients in the mass affluent segment.

Stage 3—Age 30–36	**Client Segment/Adviser Type:**	“Private Client” Range of High-Net-Worth Segment
	Justification:	The private client range in the high-net-worth segment covers asset levels between $1 million and $10 million and can provide a team of specialized advisers that supports more customized strategies for more sophisticated investments with longer time horizons, greater risk, and less liquidity. Sili’s higher asset level of $8 million puts him in the range of the high-net-worth segment. This segment generally consists of clients with liquid investment assets ranging from $1 million to $50 million. Since this range is so wide, firms often focus on only a portion of the segment. A client such as Sili with assets between $1 million and $10 million falls within a range that is known in some geographic markets as the “private client” segment. Sili’s interest in more sophisticated investments with longer time horizons, greater risk, and less liquidity requires a more customized strategy and stronger product knowledge from the wealth manager, and he is better served by a manager that specializes in high-net-worth clients than by a manager for the mass affluent segment. Also, with a wealth manager that specializes in high-net-worth clients, Sili will likely be served by a team of people with specialized and complementary skills, including tax advisers, legal advisers, investment specialists, and a relationship manager.

Stage 4—After Age 36	**Client Segment/Adviser Type:**	Ultra-High-Net-Worth Segment
	Justification:	The ultra-high-net-worth segment covers asset levels over $50 million for clients with multi-generational time horizons and provides a wider range of services for complex tax situations, estate planning, bill payment, concierge services, travel planning, and advice on acquiring high-end assets. At this stage, Sili’s portfolio value of $200 million puts him in the ultra-high-net-worth client segment, which handles clients with liquid investment assets exceeding approximately $50 million. As is characteristic of clients in this segment, Sili now has a multi-generational time horizon, highly complex tax and estate planning considerations, and a wider range of service needs. An ultra-high-net-worth adviser can assist Sili with bill payment services, concierge services, travel planning, and advice on acquiring such assets as artwork and aircraft.

Henlopen McZhao is a private wealth manager. After a successful introductory meeting with Nescopeck Cree, she is meeting again with this new client to plan a wealth management strategy. McZhao seeks additional personal information from Cree.

McZhao learns that Cree is 45 years old and is currently employed as an attorney. Cree has a number of specific financial goals that he wishes to achieve in the future but has no particular return objective for his portfolio. Because he has been investing for 20 years, Cree is comfortable with moderate levels of market volatility. His employment provides for his current expenses, so Cree's liquidity requirements are minimal. Cree prefers to have his environmental and social concerns reflected in his investment choices.

McZhao continues the discussion with Cree in order to evaluate his degree of risk tolerance associated with each of the following individual goals:

Retirement: Cree considers retirement a long-term goal and is willing to endure a 10% drop in expected retirement spending. However, he is very concerned with having sufficient funds to cover medical expenses.

Investment property: Cree sees the investment property as a source of stable income, so it is very important to him to purchase the building. He realizes that maintenance and repair expenses will be necessary, and he also considers those very important.

Philanthropy: Cree's wife strongly influences him to fund her philanthropic causes, and he wants to maintain some level of annual contribution. Cree believes that his wife would be willing to maintain her $10,000 per year contributions and not increase that amount.

Antique furniture: Cree is willing to reduce or eliminate his spending on antique furniture.

Practice Problem

Q. Determine Cree's degree of risk tolerance associated with each of the following individual goals.

Goal	Degree of Risk Tolerance
Retirement	Higher
Investment Property	Lower
Philanthropy	Higher
Antique Furniture	Higher

Practice Problem

Q. Justify your response to the previous question.

Your Answer:

Retirement:

- Longer time horizon.

- Willingness to compromise on the retirement lifestyle expenses.

Investment property:

- source of stable income for retirement lifestyle expenses, so it is very important to him. This is a high priority goal.

Philanthropy:

- Willingness to compromise on the goal. Accepting the reduction in donations from 30000 to 10000 per annum is a piece of evidence that the risk tolerance level is high.

Antique furniture:

Willingness to reduce or completely eliminate the goal is a piece of evidence that the risk tolerance level is high.

Solution

Determine Cree's degree of risk tolerance associated with each of the following individual goals. **Justify** each response.

Goal	Degree of Risk Tolerance	Justification
Retirement	Lower Higher	Retirement is a long-term goal. Cree is willing to incur a moderate drop in his planned expenses, so he likely has a higher risk tolerance for that goal. Cree is concerned about paying future medical expenses in retirement, and since his retirement is still 17 years in the future, he likely has a higher risk tolerance with the medical expenses goal.
Investment Property	Lower Higher	Because the investment property is an important near-term goal, Cree likely has a lower risk tolerance with this goal. Similarly, he likely has a lower risk tolerance with the goal of funding maintenance and repairs for the property.
Philanthropy	Lower Higher	Cree's wife's influence regarding their philanthropic giving makes Cree unwilling to stop his contributions completely, but he believes she will accept maintaining their contributions rather than increasing them substantially. As a result, Cree likely has a higher risk tolerance with this goal.
Antique Furniture	Lower Higher	Cree is likely highly risk tolerant with his goal of purchasing antique furniture, because he is willing to cut that expense altogether.