AN INTRODUCTION TO GOALS DRIVEN INVESTING™

A disciplined investment approach that empowers you with confidence.

At first glance, the notion of setting goals for your investments may not seem out of the ordinary. You probably have heard the topic of goals and objectives discussed by financial advisors many times before.

But a new approach called Goals Driven Investing goes well beyond what you have seen in a crucial way. Rather than viewing your investments as one diversified portfolio, with allocations based primarily on your risk tolerance and the concept of volatility or standard deviation, this new approach creates distinct milestones that are more closely aligned with the priorities in your life.

This new approach closely matches your financial assets with your unique goals and objectives to create a better portfolio for you – one that is a true reflection of the purpose that underlies your assets. Having this closer alignment of priorities and assets also can help you avoid some common investment mistakes.

Let's look at a recent situation as an example. During a period of high volatility in the markets, a worried investor came to see us about his portfolio. He was planning to retire within a year and was concerned about the many fluctuations he had recently experienced in the value of his portfolio. With the short timeframe before his retirement, he felt he could not afford a sharp drop in the overall value of his investments. He was considering selling some equities in order to cover a shortfall in the funds that he needed to support his lifestyle. He was convinced that these high-quality equities would eventually recover in value and did not want to sell them at their current low value; however, at this point did not think he had any other options. His dilemma illustrates a key reason to consider a Goals Driven Investing approach.

HOW THE CYCLE OF EMOTIONS CAN UNDERMINE INVESTMENT PERFORMANCE

In the last 20 years, the average equity investor has earned significantly less than the broad equity markets. During the same period, the average bond investor has earned less than the rate of inflation *(Dalbar, 2010)*.

Why is this? One of the principal reasons is that typical investor behavior tends to work against producing successful long-term investment results. A growing body of research, known as behavioral finance, shows that investors tend to purchase equities after markets have done well, when returns are expected to decline. Or investors sell securities once markets already have declined, when expected returns could trend higher. As the situation above illustrates, investing can be a very emotional decision for many people, and this emotion can drive bad decision-making.

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Goals Driven Investing uses the achievement of attaining specific personal financial goals to measure performance.

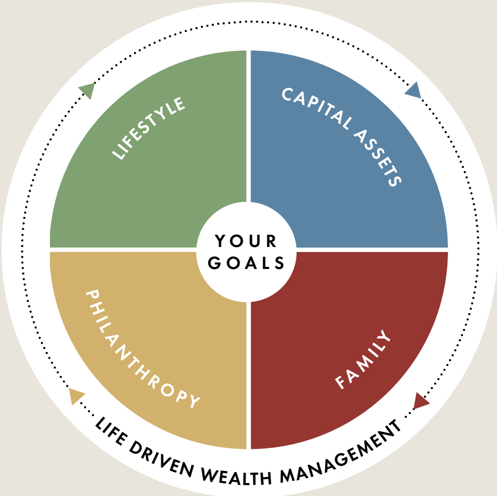
Other behavioral hurdles include:

- **Loss Aversion:** investors prefer to avoid a loss more than they value experiencing gains. This leads to emotional selling when markets experience periods of distress, or being overly conservative in asset allocation;
- **Regret:** investors do not want to feel foolish as they watch from the sidelines when the market goes up and others are profiting;
- **Procrastination:** investors often postpone making tough decisions about declining positions;
- **Hindsight Bias:** investors tend to project the past into the future; they buy prior winners even though markets move in cycles.

These are not irrational responses but very human reactions to protecting oneself during periods of decline (fear of loss) or periods of abundance (regret). But this natural reaction often leads to the "buying high, selling low" phenomenon.

Part of the problem lies in the traditional methods of portfolio construction, where assets are amassed into a portfolio with a singular goal. This singular goal is often a function solely of risk tolerance, and results are measured against conventional but arbitrary benchmarks. Goals Driven Investing can help you avoid these behavioral pitfalls by redefining your benchmarks.

Goals Driven Investing *uses the achievement of attaining specific personal financial goals,* rather than an arbitrary risk/return label such as "growth with income" or comparing your performance to conventional market benchmarks such as the S&P 500. By focusing on your specific goals – the true purpose behind your assets – and by redefining your benchmarks, you can maintain your confidence even during periods of market volatility.



THE NEW PARADIGM: ALIGNING INVESTMENTS WITH YOUR PRIORITIES

A Goals Driven Investing approach begins with a detailed analysis of your personal goals and then converting these goals into separate "financial milestones." By quantifying your financial life goals, you are better able to evaluate whether your current assets and investment strategies are going to help you meet your future needs and aspirations.

Investors have many different goals, but goals can generally be grouped into four main categories:

- **Lifestyle** – Annual spending
- **Capital Assets** – Significant asset purchases, such as a second home or boat
- **Family** – Gifting or support for family members or others
- **Philanthropy** – Charitable goals and legacy, during and after your lifetime

ASSET ALLOCATIONS MOVE ALONG A "GLIDEPATH" BASED ON DATE FUNDS ARE NEEDED*

YEARS FROM GOAL	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Risk Control Assets	100%	100%	78%	64%	53%	44%	37%	31%	25%	20%	16%	11%	8%	4%	0%
Risk Assets	0%	0%	22%	36%	47%	56%	63%	69%	75%	80%	84%	89%	92%	96%	100%

**Apart from Lifestyle goals*

DEFINING YOUR GOALS

The first step in a Goals Driven Investing approach is to identify and prioritize your life goals:

- What are your current and future lifestyle needs?
- Do you have any large purchases planned?
- What are your objectives for your family?
- What passions or dreams do you want to pursue?
- Do you want to support any charitable organizations or create a philanthropic legacy?
- Are there any other important financial issues that you face?

The Goals Driven Investing approach matches these goals with the appropriate assets and investment strategies based upon each goal's time horizon and your risk preferences, or the degree of confidence you desire for attaining each goal.

A FEELING OF CONFIDENCE AND SECURITY

In the case of our nervous investor, his primary concern was maintaining his lifestyle into retirement during a period of market turmoil and uncertainty. To help an investor achieve his or her lifestyle goals, we utilize a strategy that we call "The Bond Runway®."

The Bond Runway is a high-quality, fixed-income allocation designed to fund lifestyle goals through periods of distress. It is designed to allow the equities in your portfolio sufficient time to recover from periods of market downturns (see the box on page 5 for details).

FOR GOALS OTHER THAN LIFESTYLE

The Goals Driven Investing approach also helps investors determine other high-priority goals and align the appropriate assets with these goals.

As time passes and a goal gets closer to the date of funding, the allocation for that specific goal moves along a "glidepath." When a goal is only two years away, for instance, the matched assets call for higher levels of risk control investments (i.e. high-quality, short-duration, fixed-income) to protect assets from market volatility. The illustration above demonstrates how a goal 15 years away would move along the glidepath and change in allocation over time until the date the funds are needed.

The purpose of the glidepath is to provide a high level of confidence that the dollar amount needed to meet the goal will be available at the specified date. You can see from the chart above that as the specific goal glides closer to the date of funding, closer to Year 1, the asset allocation becomes more and more conservative with risk assets (i.e. equity oriented investments) being sold for reinvestment in risk control assets. This is appropriate as empirical data shows that equities tend to provide a positive return over a 15-year period. Consequently, longer-term goals of 15 years or longer use a higher level of risk assets.

By identifying an investment plan for specific goals, you will have a truly tailored strategy.

A BETTER INDICATION OF HOW YOU ARE DOING

Goals Driven Investing gives you a more relevant way to measure investment performance than the traditional benchmarks or complex terms such as standard deviation. Instead, we measure your performance by how well you are progressing towards the goals that you have identified as being most meaningful to you.

Due to the inherent transparency provided through Goals Driven Investing, many investors find that they are able to answer with more confidence two of their most pressing questions:

- Do I have enough?
- What else can I do?

We all know that life can change – sometimes quickly – and goals can change with it. By identifying and developing an investment plan for specific goals, you will have a truly tailored investment strategy – one that's better able to adapt to whatever life throws your way.

This new method of measuring success can provide greater peace of mind and comfort no matter what the markets are doing. Instead of spending time searching only for the best investments, Goals Driven Investing allows you to reflect on what is really important to you and to align your investments with these goals. The transparency in the approach may even help you say, "I can do more than I thought."

OUR FIVE-STEP INVESTMENT APPROACH

Full Transparency

Our empirical investment approach helps you gain an understanding of how you will achieve your goals.

DEFINE PERSONAL GOALS
- Lifestyle
- Capital Assets
- Family Objectives
- Philanthropic Desires

IDENTIFY YOUR ASSETS
- Personal Assets Inventory
- Liquid & Semi-liquid Investments
- Concentrated Investments
- Illiquid Investments

DESIGN YOUR INVESTMENT PROGRAM
- Design Strategies to Personal Goals
- Asset Allocation
- Risk Positioning Preferences
- Research-Guided Approach

CUSTOMIZE YOUR PORTFOLIO
- Objective Advice
- Cost-Effective Approach
- Active vs. Passive vs. Engineered Strategies
- Deliberate Asset Locations Decisions

EMPOWER YOU
- Comprehensive Plan
- Transparency
- Performance Clarity
- Long-term Perspective
- Access to Full Range of Northern Trust's Expertise

WHAT MATTERS TO YOU?

Once you have reached a point in life where your lifestyle needs are covered, it's time to explore the larger purpose of your wealth. What dreams do you still wish to fulfill? What legacy do you want to leave for your family, to your community or even to the world?

Only by clearly identifying these goals and setting clear, quantifiable targets and an appropriate asset allocation for each, can you truly have the confidence that your investments are on the right track.

FOR MORE INFORMATION

To begin this exciting approach and add more purpose to your portfolio, please call 866-803-5857 to speak with a Northern Trust professional.

THE BOND RUNWAY®

The Bond Runway is a high-quality, fixed income allocation designed to fund lifestyle goals through periods of distress. Just as an airplane needs a length of runway to get off the ground, the Bond Runway gives the equities in your portfolio time to recover from downturns. It covers a set number of years to help protect your lifestyle needs in the event of a severe economic event.

As an example, the chart below shows what happened to the equity markets during the Great Depression. From the market peak, it took nearly 20 years for equities to recover their losses on an inflation-adjusted basis. Many investors sold equities at the worst possible time, either because they needed the money to support their lifestyle or because they could not withstand the volatility.

CHART 1 – EQUITIES THROUGH THE GREAT DEPRESSION

Great Depression – 20 years

Source: Ibbotson S&P 500 total returns adjusted for inflation (1972-1984) and indexed to 100 in 1926.

Today, a 50-year-old investor with a goal of spending $250,000 a year to maintain her lifestyle could fund a 10-year Runway with $2.52 million in bonds and $6.03 million in equity-oriented assets (see chart 2).

On the other hand, if you structured the fixed-income portion of your portfolio based on the coupon payments of bonds alone, you would need much higher asset levels to fund the same lifestyle. In fact, the yield associated with $2.52 million in bonds alone would support less than $25,000 per year in spending, adjusting for inflation and taxes.

CHART 2

GOAL: FUND $250,000 ANNUAL LIFESTYLE GOAL FOR 50 YEARS			
Values accommodate inflation and taxes	**Fixed Income**	**Equity**	**Total**
Lifestyle Goal			
Period 1-10 Year Bond Runaway	2,522,265	–	2,522,265
Period 2-40 Years of Equity-Matched Spending	–	6,026,324	6,026,324
Portfolio Mix to Fund Lifestyle Goal	2,522,265 30%	6,026,324 70%	8,548,589 100%

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NOT FDIC INSURED	May lose value	No bank guarantee

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