

# Digging Deeper for Goals



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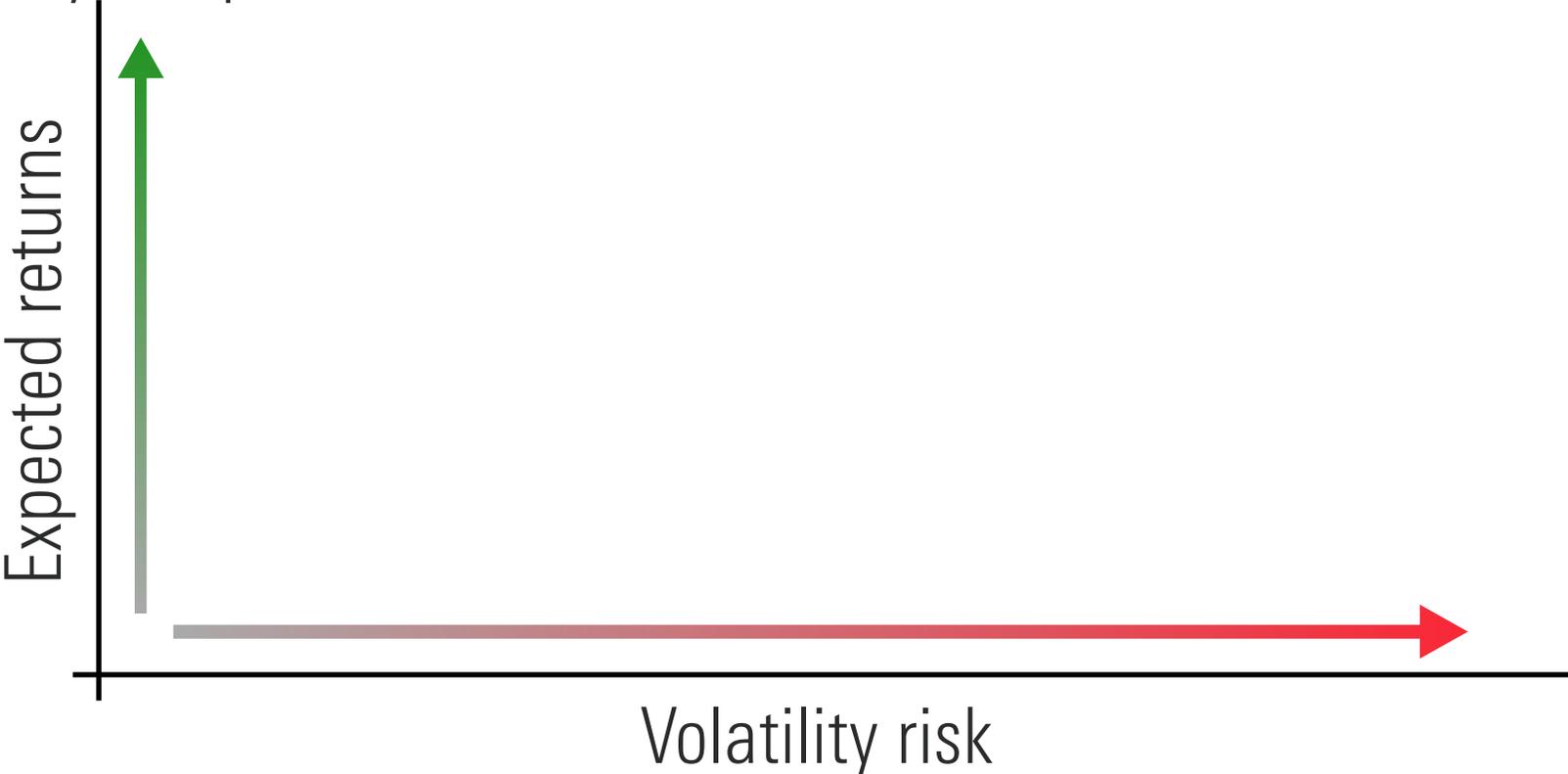
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**A simple (but not easy) question**

What makes a portfolio good?

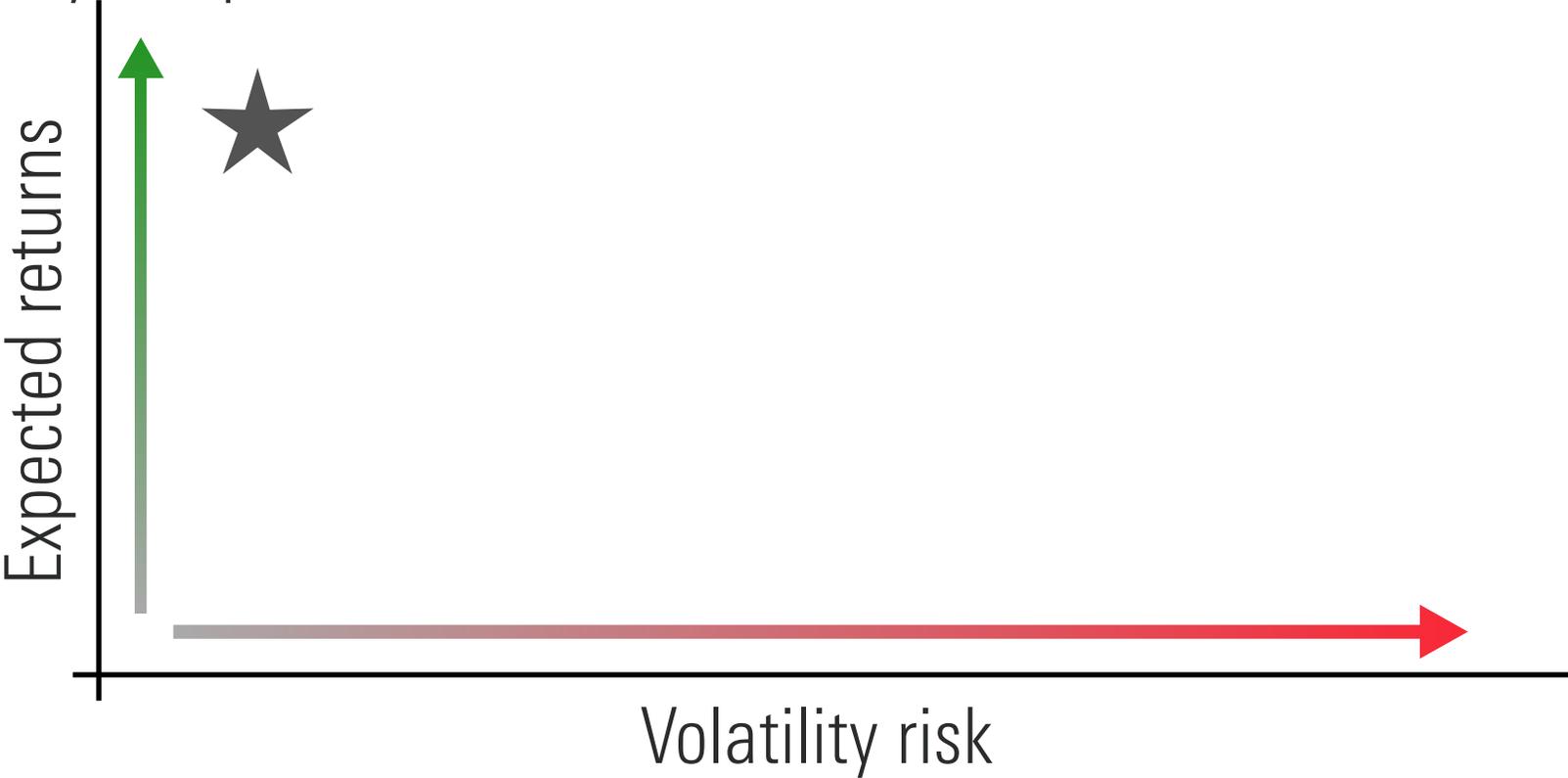
# What makes a portfolio good?

- Efficiency- Proper trade-off between risk and returns



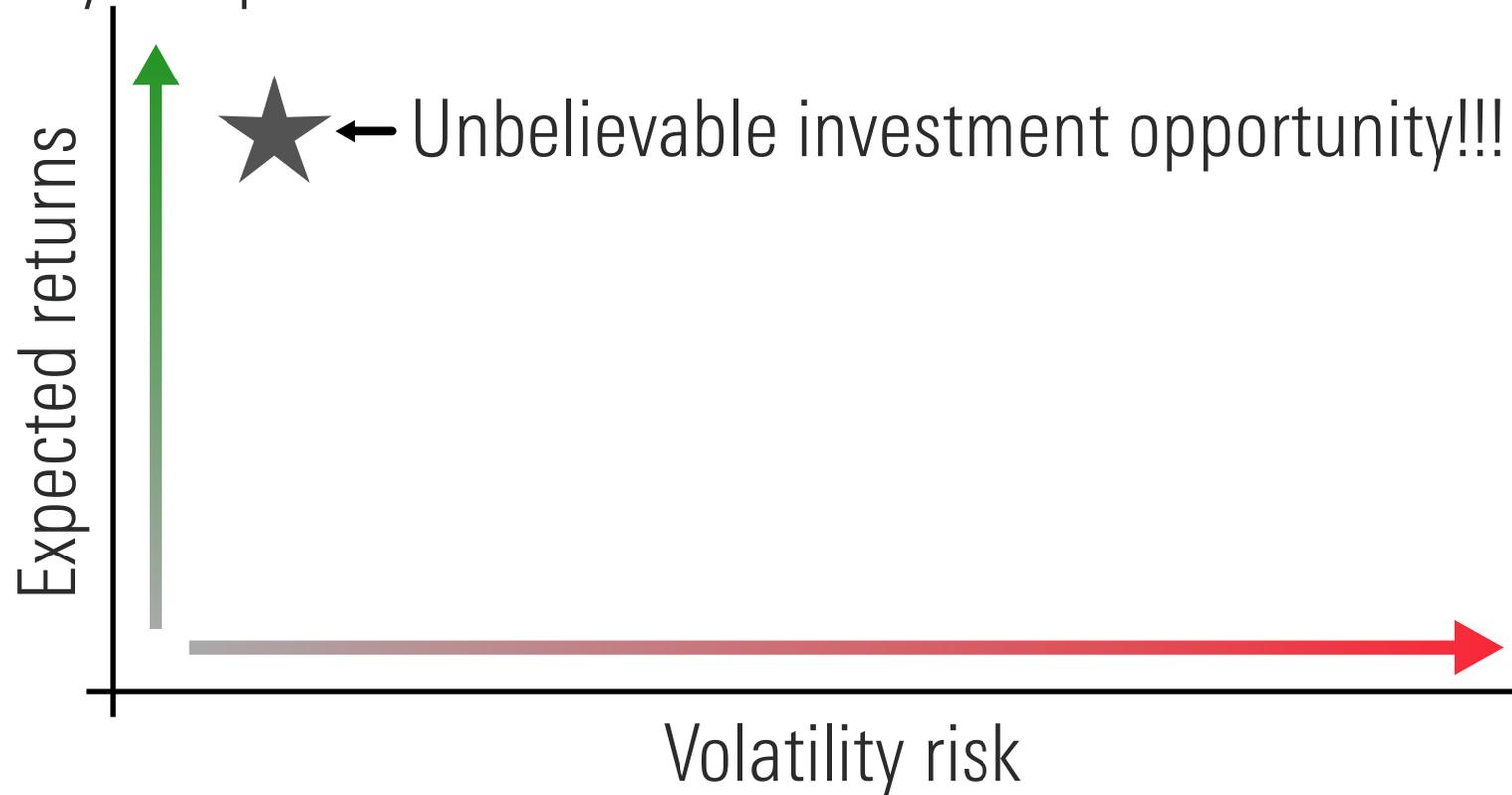
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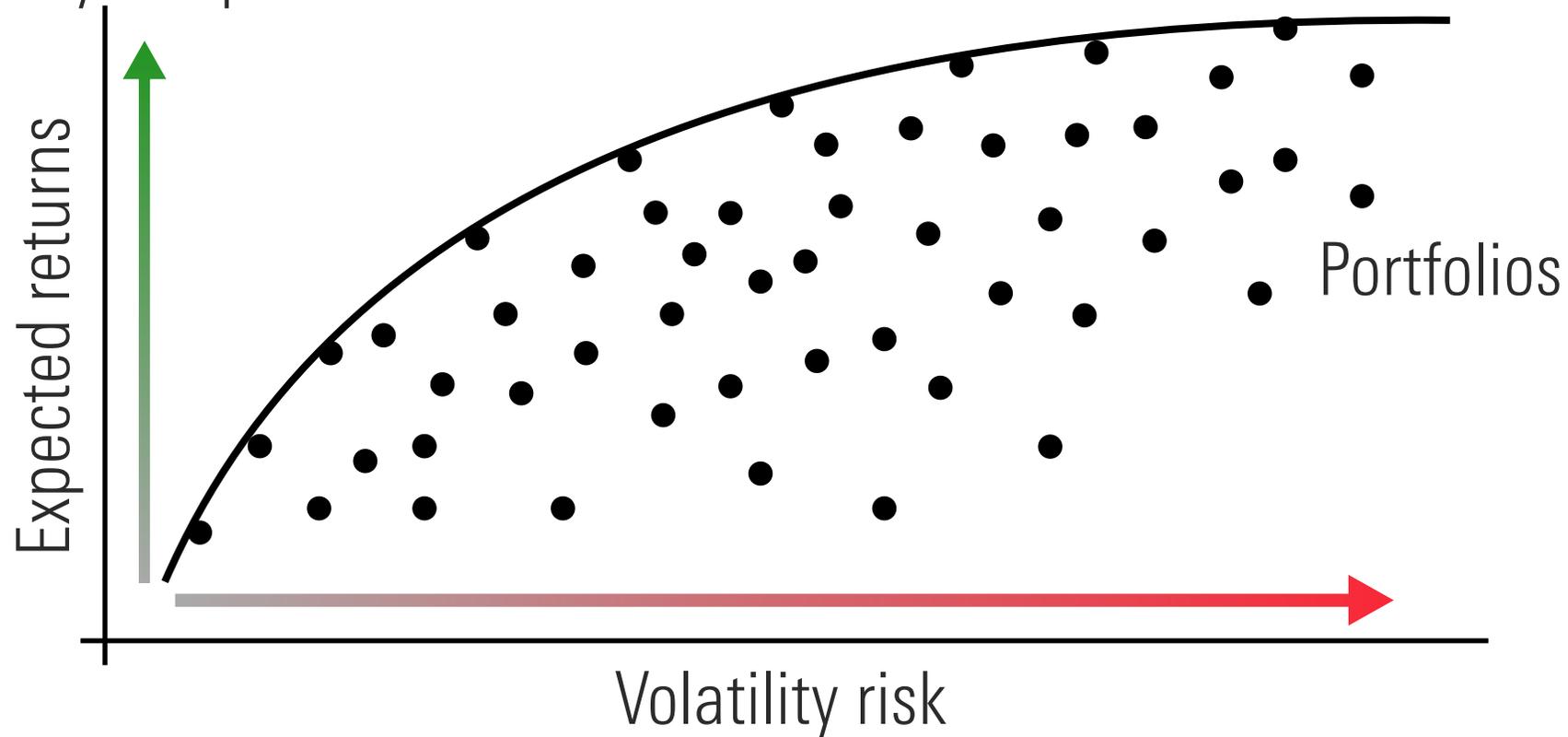
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# What makes a portfolio good?

$$w^T \Sigma w - q * R^T w$$

- Efficiency- Proper trade-off between risk and returns



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# What makes a portfolio good?

- Efficiency- Proper trade-off between risk and returns Necessary, but not sufficient
- Effectiveness

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## What makes a portfolio good?

- Efficiency- Proper trade-off between risk and returns
- Effectiveness- Getting the investor where they want to go

If you don't know where you're going,  
you might not get there.

— Yogi Berra

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## What makes a portfolio good?

- Efficiency- Proper trade-off between risk and returns
- Effectiveness- Getting the investor where they want to go
- Endurability- The investor can stick with their strategy and portfolios over the long-term

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## Goal-centric investment planning

- Goals provide a good benchmark to help people understand if they are on track.
- Goals provide a more useful “compared to what” than market indexes do.
- Focusing on goals can be an antidote to returns chasing, and can help counter the kinds of decision biases people sometimes fall prey to.

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## Goal-centric investment planning

- Vivid, personal, emotionally grounded goals provide good motivation for people.
- Research by Locke and Latham (1990) suggests that people are more committed to goals that are: personalized, important to them, well-specified, and realistic.

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The best way to measure your investing success is not by whether you're beating the market but by whether you've put in place a financial plan and a behavioral discipline that are likely to get you where you want to go.

— Benjamin Graham

The Intelligent Investor (1949)

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**A simple (but not easy) question: With an answer**

What makes a portfolio good?

It helps investors' reach their  
goals.

Portfolios are just means to ends...

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Another simple (but not easy) question

So just ask investors:

What are your goals?

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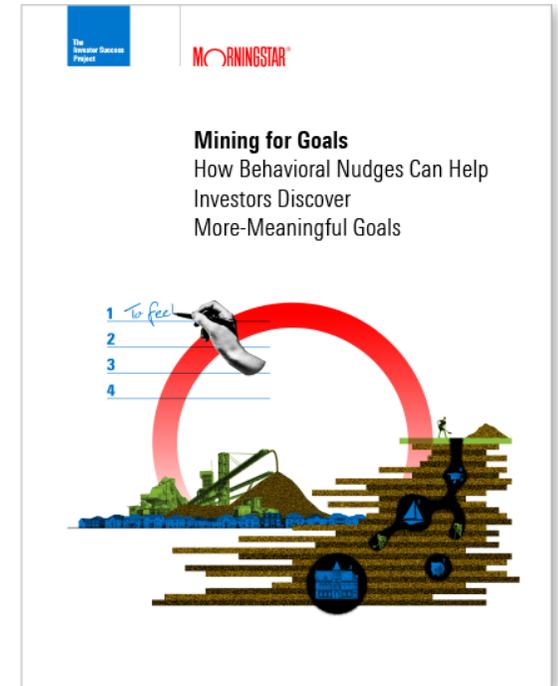
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People can be strangers to themselves

This is one of these easy questions people often get wrong

# Goal-centric investment planning

- Our research on investor's goals showed that people often simply don't know their own major financial goals.
- Obviously this is a problem... but people don't even know that they don't know...
- So, how to talk to people about something they should know, but that they don't know, and moreover that they don't realize that they don't know?



# Mining for goals: A process to discover and articulate goals

**1** What are your top three financial goals?

Most important goal:

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Second most important goal:

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Third most important goal:

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2 Goal-Identification Worksheet

Step 1

**2** Here's a master list of common financial goals. Are there any goals here that are important to you? If so, check the box next to those goals. (Check five at most)

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- To pay for personal self-improvement (e.g., go back to school, learn a skill)
- To experience the excitement of investing
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- To buy a house
- To help pay for my kids' college education
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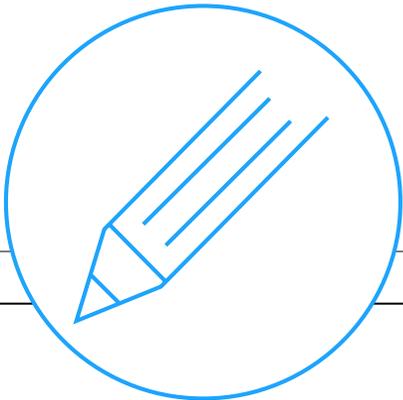
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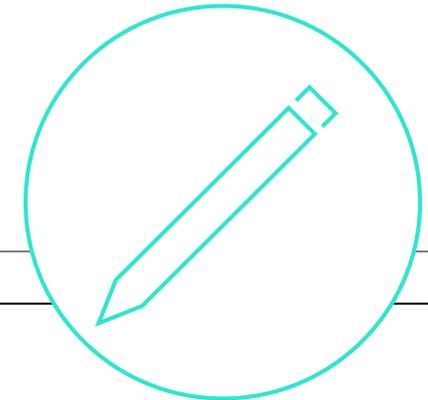
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Step 2

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Step 3

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## Digging deeper into goals

- We (Lobotka, Lamas, Murphy) revisited this line of research working with a Wealth Management Firm in Canada.
- Wealth management clients were invited to participate in research about their financial goals. 310 people joined and reported about 2400 goals.
- This is not a nationally representative sample (CA, US, UK, AUS). Compared to average, the respondents tended to be wealthier, younger, more financial literate, and were predominantly male.

# Study design

## What're your goals?

Imagine the life that you want to live and create a list of the financial goals that will get you there. These can be short-term goals and long-term goals. Effective goals are statements of a desirable state, not the means to get there, and they are abstract. For example, saving up a \$10,000 emergency fund is a means, not a goal. The corresponding abstract goal would be feeling financially secure

Step 1

## Tell me more.

Try to add to your initial list, doubling the number of goals initially identified (click "Back" to see your previous responses). Remember, effective goals are statements of a desirable state, not the means to get there, and they are abstract.

Step 2

## Framework

Financial goals generally fit into the following categories:

- Positive emotion
- Engagement
- Relationships
- Meaning
- Accomplishment
- Vitality

After seeing these categories, add any additional goals that come to mind (click "Back" to see your previous responses).

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Step 3

# PERMA + V: Factors that contribute to a person's wellbeing & happiness

<b>P</b> ositive emotions	Gratitude, financial security, savoring small pleasures, mindfulness, feeling in control, hope and optimism
<b>E</b> ngagement	Finding states of flow in things like work, art, hobbies, sports, or creative projects
<b>R</b> elationships	Strong ties with friends and family
<b>M</b> eaning	Belonging to and serving something bigger than the self – community, family, work, religion, and social causes
<b>A</b> ccomplishment	Pursuit of achievement, competence, success, and mastery
<b>V</b> itality	Diet, exercise, and sleep

Seligman, M. (2018). PERMA and the building blocks of well-being. *The Journal of Positive Psychology, 13*(4), 333-335.; Seligman, M. E., & Csikszentmihalyi, M. (2000). *Positive Psychology: An Introduction* (Vol. 55, No. 1, p. 5). American Psychological Association.

# Study design

Ask the question

## What're your goals?

Imagine the life that you want to live and create a list of the financial goals that will get you there. These can be short-term goals and long-term goals. Effective goals are statements of a desirable state, not the means to get there, and they are abstract. For example, saving up a \$10,000 emergency fund is a means, not a goal. The corresponding abstract goal would be feeling financially secure

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Ask it again

## Tell me more.

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Step 2

Provide a structure

## Framework

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# Study data- Large piles of open text responses

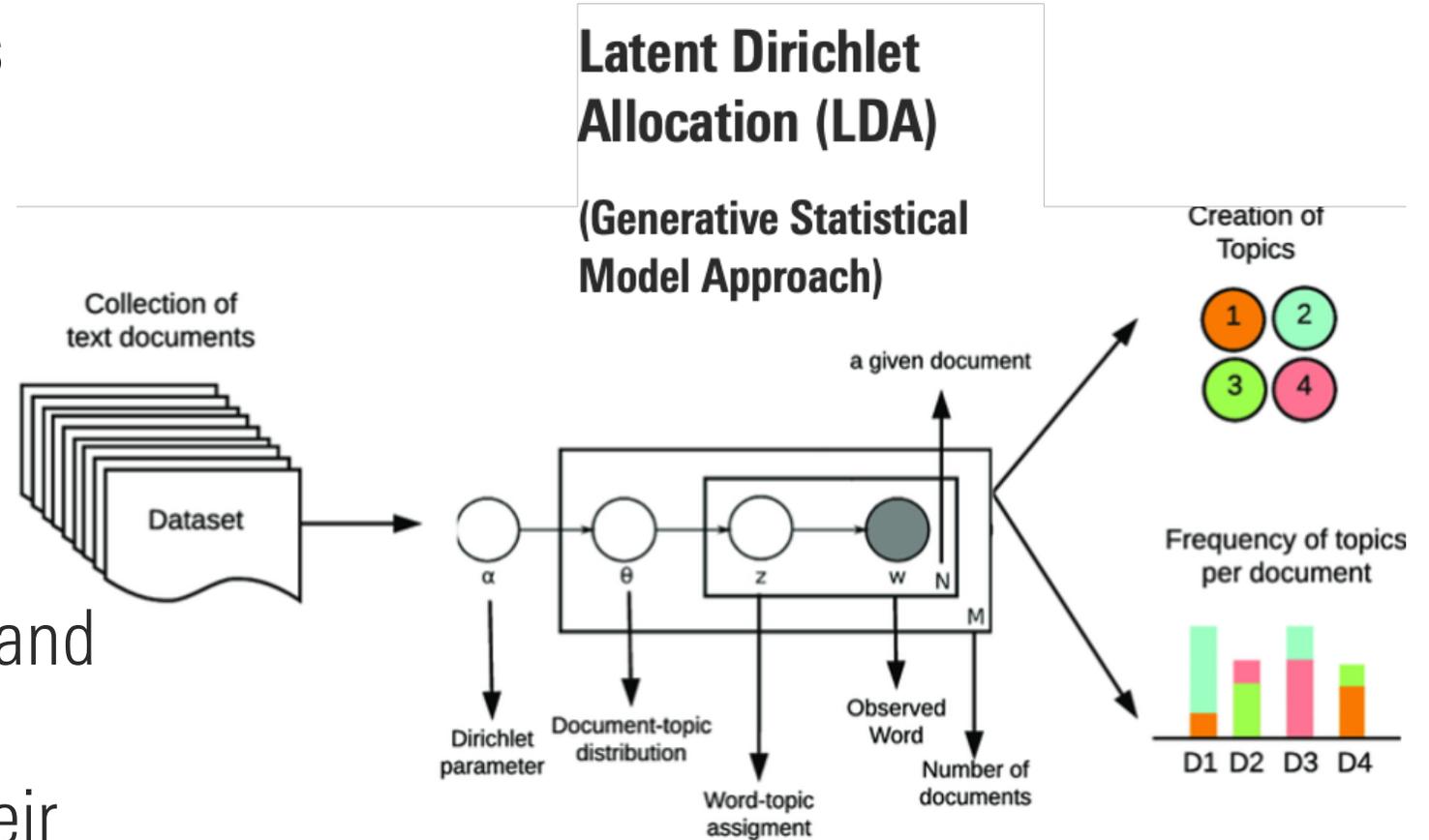
310 people made 2,397 responses with 25,454 words. Some examples:

Budgeting enough to pay for a family trip of some kind every year between now and when my kids go to university
Continuing to make financial contributions to my church and other charitable organizations
Make exercise a regular habit and part of routine to improve longevity and quality of life
Finding a city where we can settle down and committing to it so we can finally buy a home
Not worrying about spending money on clothes on a monthly basis
Make time to explore new hobbies and experiences
Live comfortably in retirement
Eventually being able to sacrifice making more money to gain more time

Able to look after family if/when required without any financial worries
Saving enough to become financially independent and having the option to work or not
Cover the cost of kids post secondary education
Feeling financially secure
I want to spend more time with family and friends
Set aside money without disrupting financial independence goal to make lasting memories and experiences with friends and family
Have a fulfilling relationship with wife and good relations with in-laws
Feeling confident that I am investing in an evidence-based manner
Leave a sizeable bequest for my children

## Results: Categories of goals

- Challenge of distilling 2,397 responses into something comprehensible
- Bertopic and LDA analysis
- Identify the general themes and topic clusters that people mention when explaining their goals

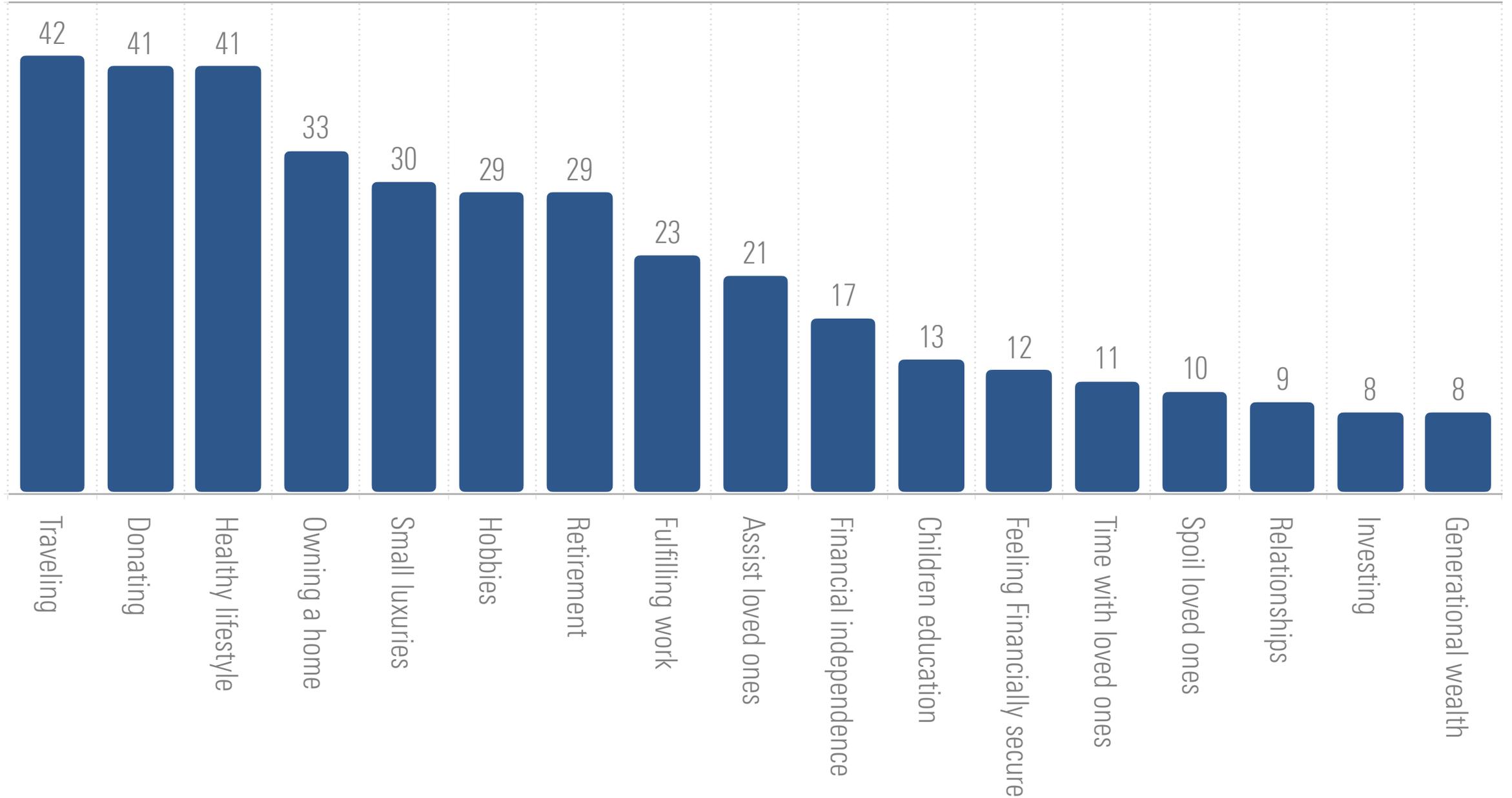


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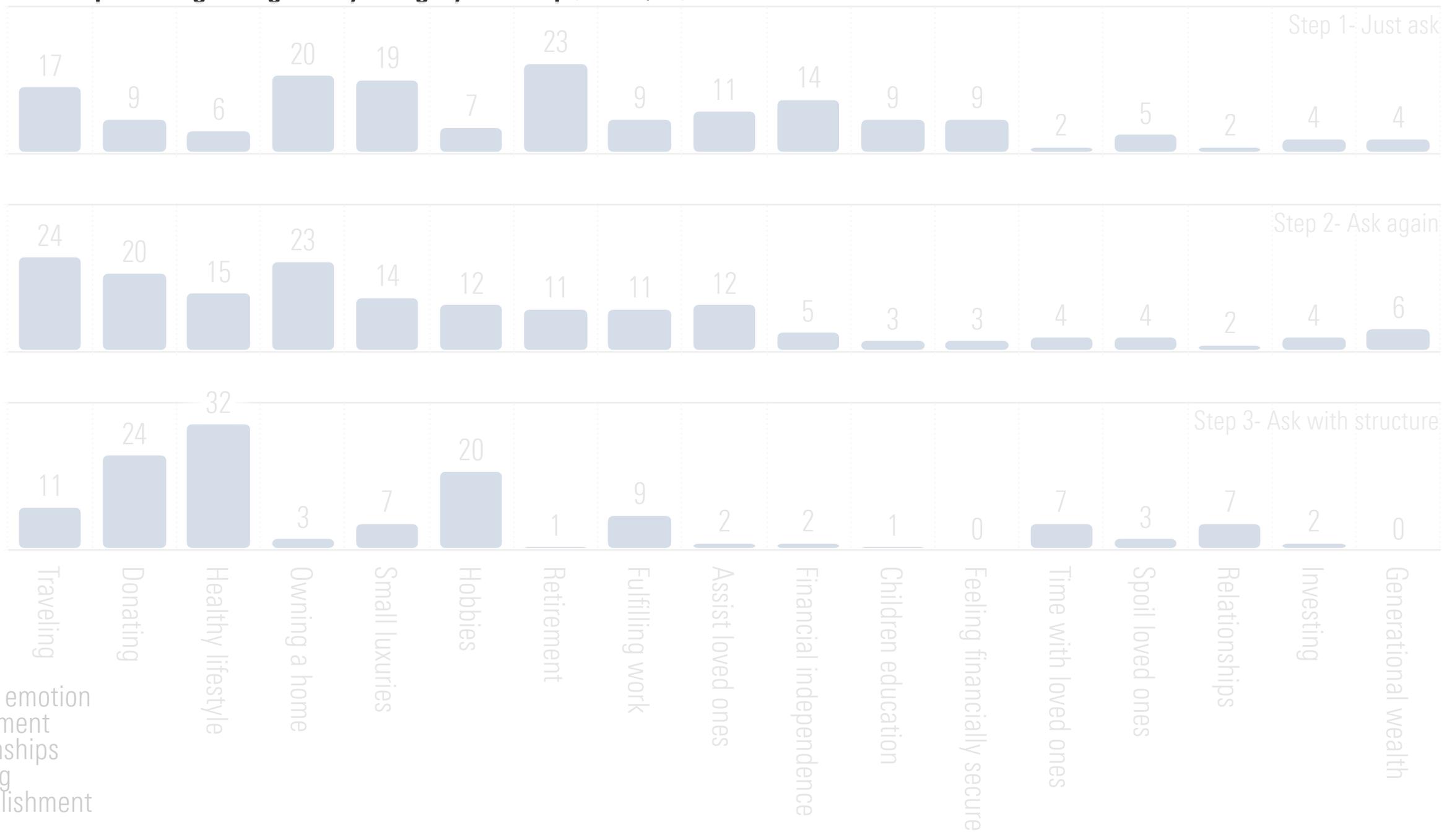
# Study data- With structure

Examples	Category
Budgeting enough to pay for a family trip of some kind every year between now and when my kids go off	Traveling
Continuing to make financial contributions to my church and other charitable organizations	Donating
Make exercise a regular habit and part of routine to improve longevity and quality of life	Healthy lifestyle
Finding a city where we can settle down and committing to it so we can finally buy a home	Owning a home
Not worrying about spending money on clothes on a monthly basis	Small luxuries
Make time to explore new hobbies and experiences	Hobbies
Live comfortably in retirement	Retirement
Eventually being able to sacrifice making more money to gain more time	Fulfilling work life
Able to look after family if/when required without any financial worries	Assist loved ones
Saving enough to become financially independent and having the option to work or not	Financial independence
Cover the cost of kids post secondary education	Children education
Feeling financially secure	Feeling financially secure
I want to spend more time with family and friends	Time with loved ones
Set aside money without disrupting financial independence, make lasting memories with friends and family	Spoil loved ones
Have a fulfilling relationship with wife and good relations with immediate family in-laws	Relationships
Feeling confident that I am investing in an evidence-based manner	Investing
Leave a sizeable bequest for my children	Generational wealth

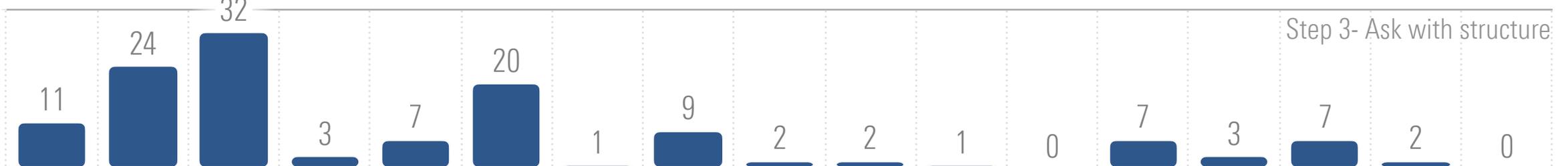
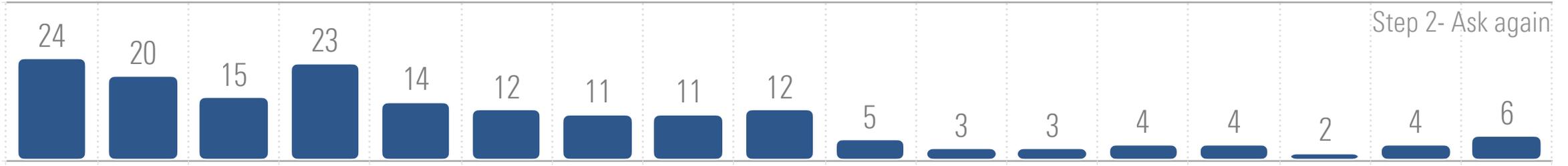
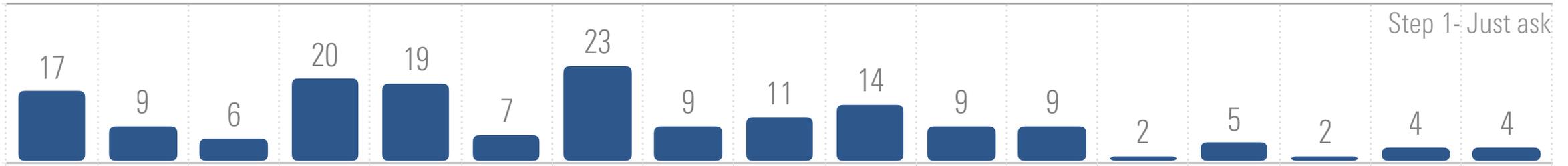
# Results- Overall percentages of goals by category (N = 2,397 responses)



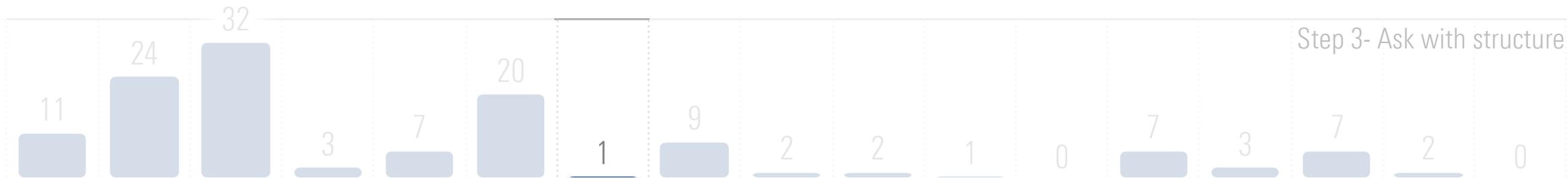
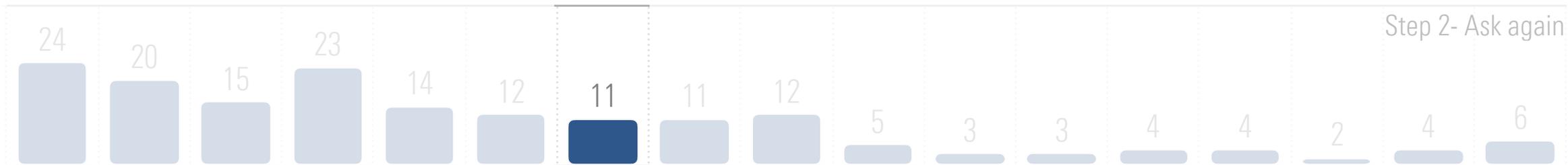
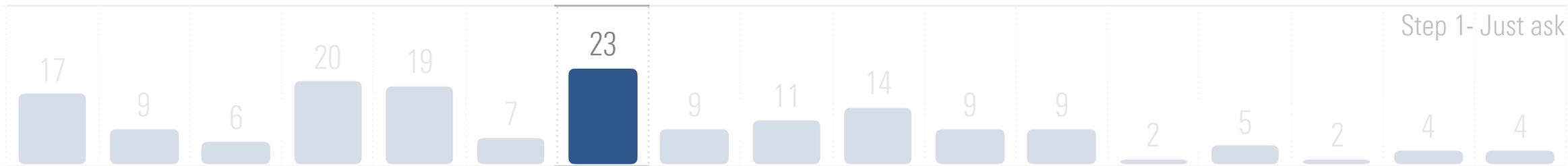
# Results- Overall percentages of goals by category and step (N = 2,397 responses)



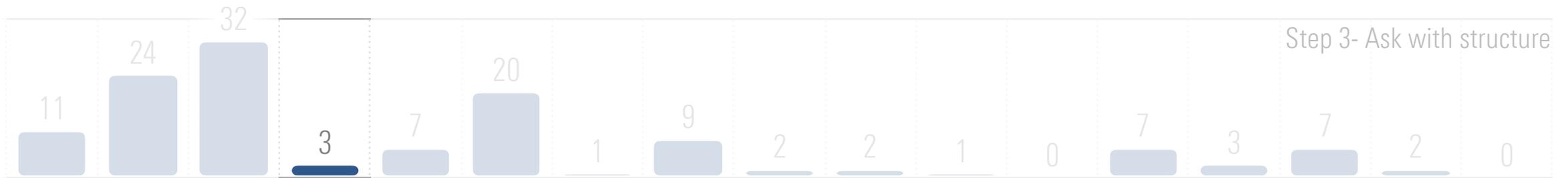
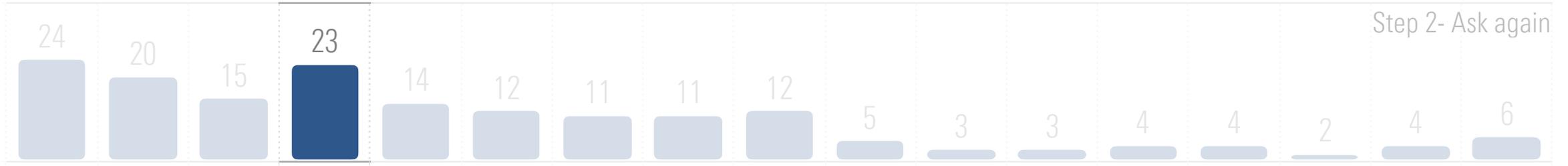
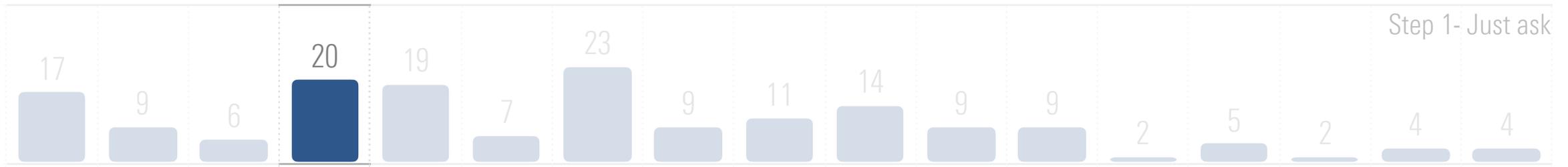
Positive emotion  
 Engagement  
 Relationships  
**Meaning**  
 Accomplishment  
 Vitality



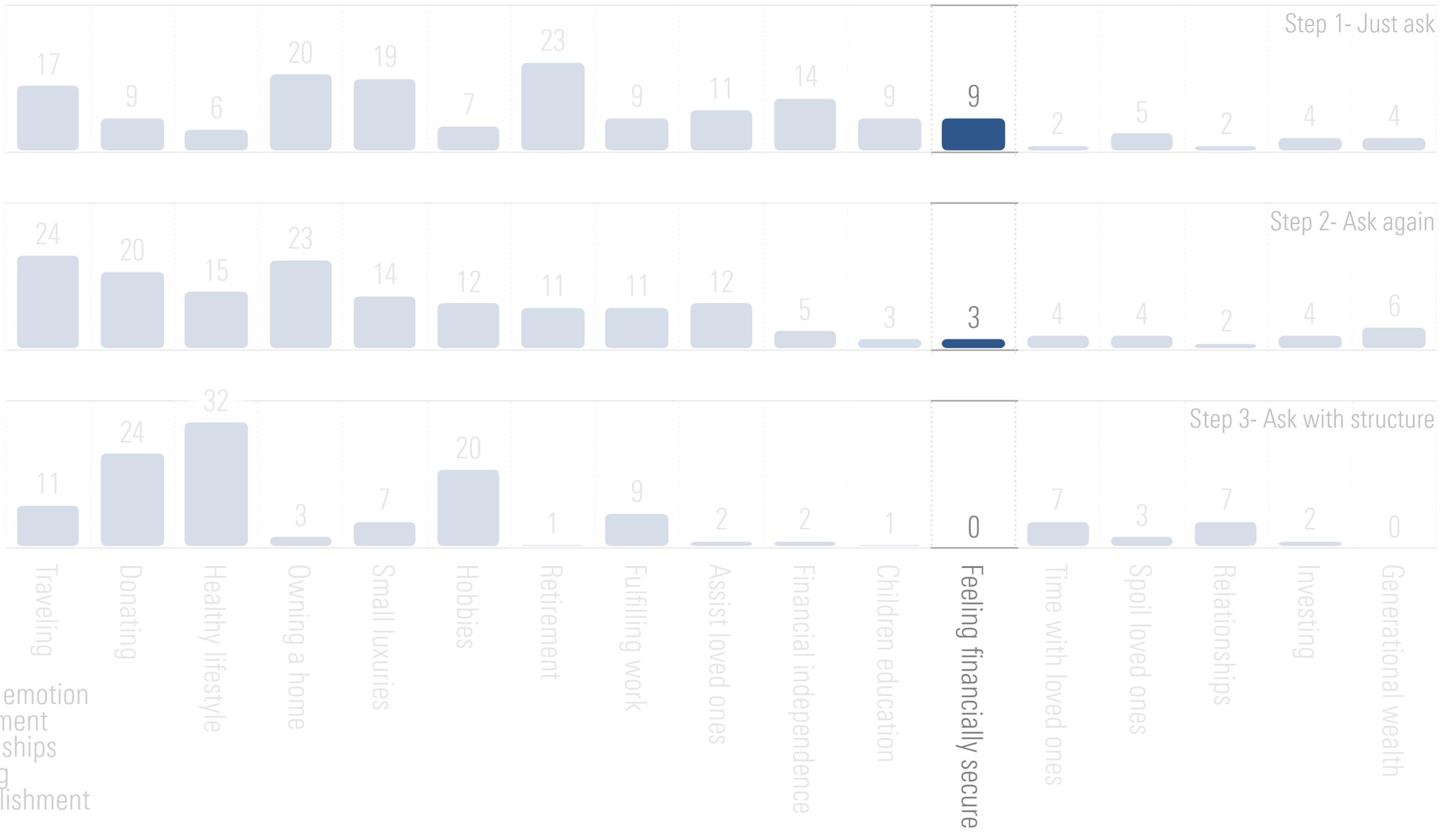
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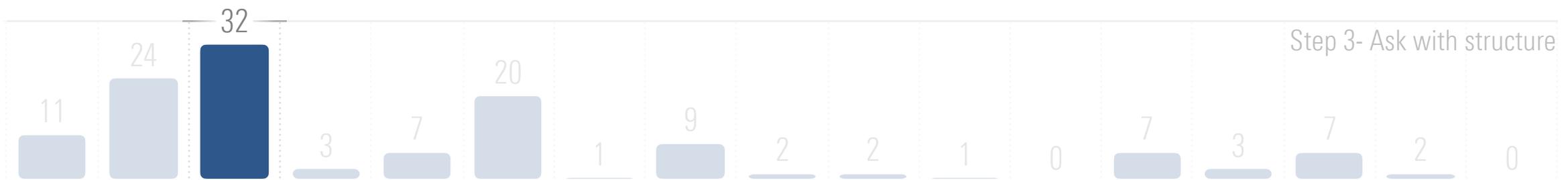
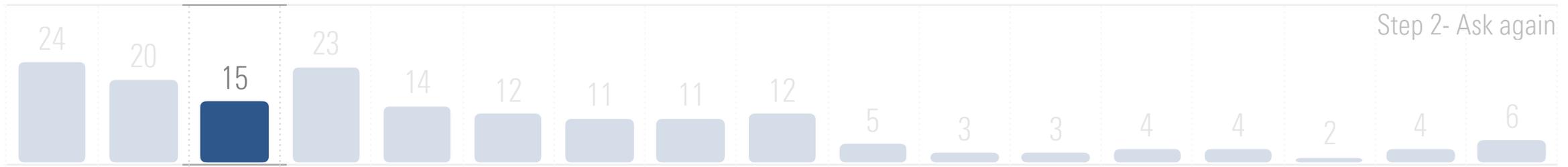
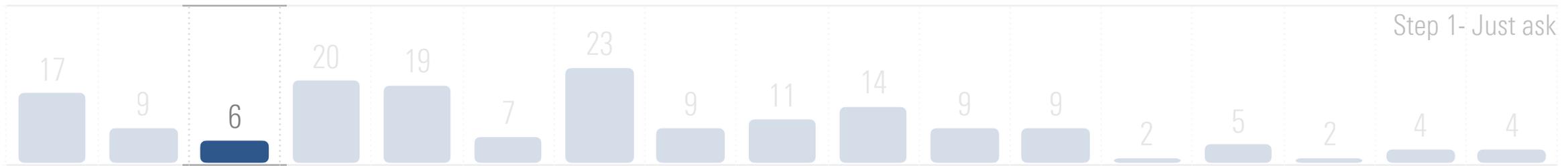


Positive emotion  
Engagement  
Relationships  
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Accomplishment  
Vitality



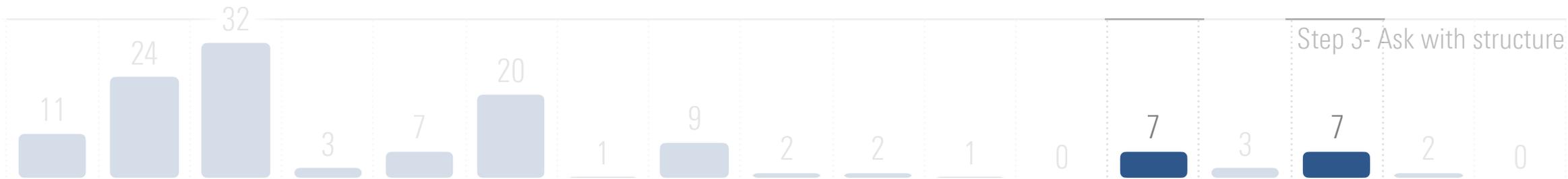
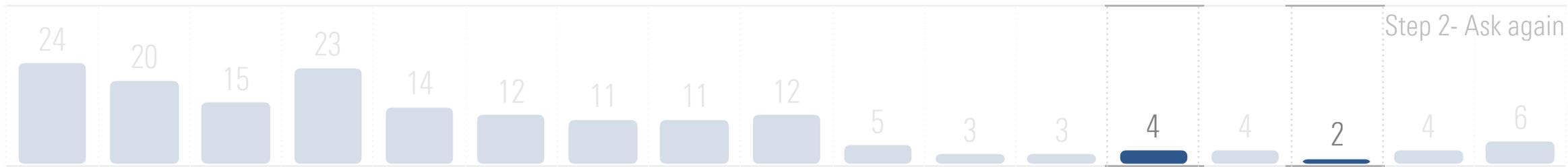
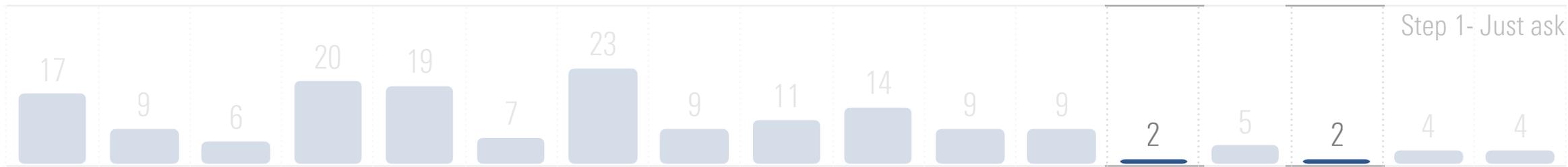
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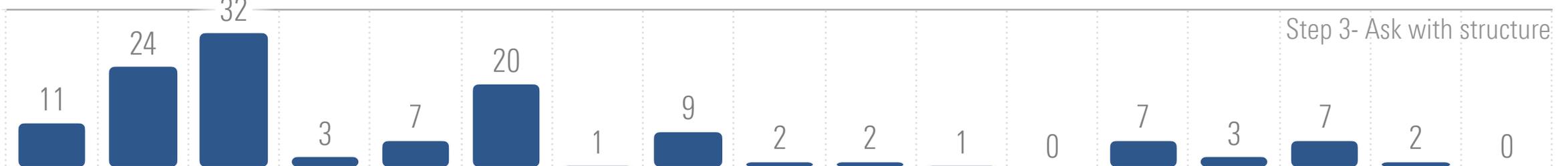
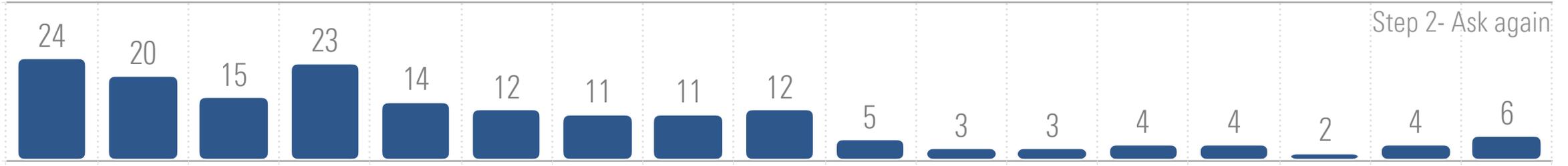
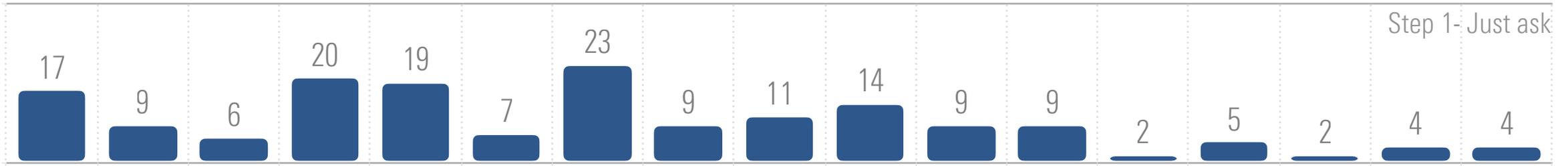
Positive emotion  
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Positive emotion  
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Positive emotion  
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## Digging deeper into goals- Just asking for more does not work

- There was not big differences between the kinds of things people said on steps 1 and 2.
- If anything, the kinds of things people said on step 2 were less important or less grounded than the topics in either steps 1 or 3.
- The use of the PERMA-V framework had a significant effect on the topics people mentioned and the subsequent clarity/depth they provided. There was a transition from “financial goals” to “life goals.”

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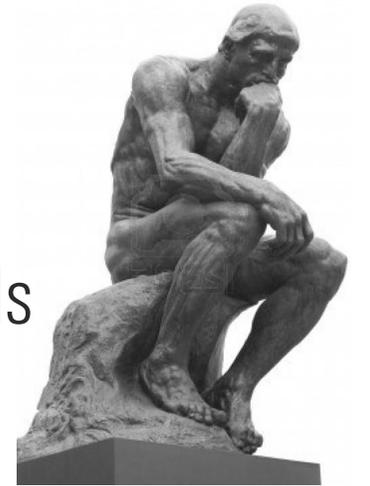
## Digging deeper into goals- Surface to depth

- People tend to start with **WHATs** and move to **WHYs**
  - Retirement => To have more time to...
  - Pay off mortgage => Buy a cottage as secondary home to become our retirement home
  - Financially be able to support a large family => Financially be able to derive a sense of accomplishment, elite-ness, and respect from my wealth
  - Incidentals => Not to be a burden on my children

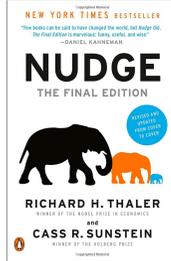
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# Rational Choice Theory

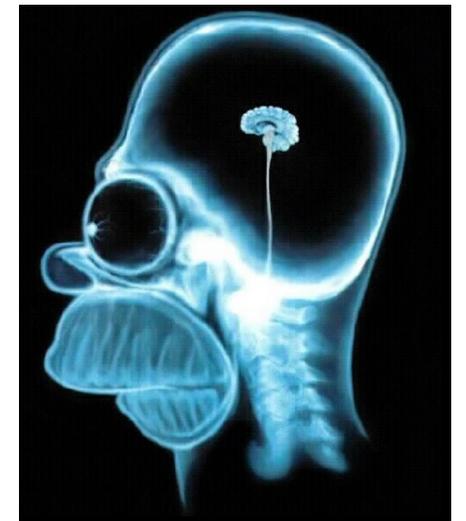
- If people were perfectly rational decision agents...
  - Just give them all the information and ask their preferences/goals



# Choice Architecture



- If people were perfectly rational decision agents...
  - Just give them all the information and ask their preferences/goals
- But people are not perfectly rational (nor are they purely random)
  - So, make it: **Simple, Easy, Relevant.**



# Digging deeper into goals- WHATs and WHYs

- Both of these studies are using choice architecture.
- Checklists show examples of different goals. This helps people identify and articulate their own WHATs better. The WHYs then tend to naturally follow once there is more clarity around the WHATs.
- A Meaning Framework directly reorients people toward WHYs, and then they can be nudged to generate the WHATs.

2 Here's a master list of common financial goals. Are there any goals here that are important to you? If so, check the box next to those goals. (Check five at most)

- To be better off than my peers
- To pay for personal self-improvement (e.g., go back to school, learn a skill)
- To experience the excitement of investing
- To start a new business
- To buy a house
- To help pay for my kids' college education
- To stop working and do something I love
- To go on a dream vacation
- To relocate in retirement
- To care for my aging parents
- To give to charity or other causes I care about
- To feel secure about my finances in retirement
- To feel secure about my finances now
- To leave an inheritance to my loved ones
- To retire early
- To pay for future medical expenses
- To not be a financial burden to my family as I grow older
- To manage my debt

## Framework

Financial goals generally fit into the following categories:

- Positive emotion
- Engagement
- Relationships
- Meaning
- Accomplishment
- Vitality

After seeing these categories, add any additional goals that come to mind (click "Back" to see your previous responses).

# Digging deeper into goals- WHATs and WHYs

- So what to do...
- Don't just ask
- Mining for Goals check list

■ What are your top three financial goals?

Most important goal:  
\_\_\_\_\_  
\_\_\_\_\_

Second most important goal:  
\_\_\_\_\_  
\_\_\_\_\_

Third most important goal:  
\_\_\_\_\_  
\_\_\_\_\_

Goal Identification Worksheet

■ Here's a master list of common financial goals. Are there any goals here that are important to you? If so, check the box next to those goals. (Check five at most)

- To be better off than my peers
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- To not be a financial burden to my family as I grow older
- To manage my debt

Most important goal:  
\_\_\_\_\_  
\_\_\_\_\_

Second most important goal:  
\_\_\_\_\_  
\_\_\_\_\_

Third most important goal:  
\_\_\_\_\_  
\_\_\_\_\_

Goal Identification Worksheet

■ Look at your initial list and master list. Consider the goals you wrote down and the goals you checked. Of these goals, what are the top three? Write them down in order of importance.

Most important goal:  
\_\_\_\_\_  
\_\_\_\_\_

Second most important goal:  
\_\_\_\_\_  
\_\_\_\_\_

Third most important goal:  
\_\_\_\_\_  
\_\_\_\_\_

Goal Identification Worksheet

- Framework for thinking about satisfaction, life goals, meaning, happiness, a virtuous life well-lived

## Framework

Financial goals generally fit into the following categories:

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After seeing these categories, add any additional goals that come to mind (click "Back" to see your previous responses).



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## One complication- Specificity and flexibility

- Good goals are specific (and measurable), but ...
- Good plans are flexible (and arguably more abstract)
  
- Consider a household that has the goal of owning a cottage near the lake district. Why? A relaxing place to gather generations of family...
- But who knows if 15-20 years from now, generations of family will be able/willing to gather at the country cottage as intended.
- Predictions are hard, especially about the future.  
-Neils Bohr



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**A simple (but not easy) question**

What makes a portfolio good?

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## What makes a portfolio good?

- Efficiency- Proper trade-off between risk and returns
- Effectiveness- Getting the investor where they want to go
- Endurability- The investor can stick with their strategy and portfolios over the long-term
- Ethics- Optional- The degree to which the investor cares to have their personal nonpecuniary values expressed in their investments

# Digging Deeper for Goals



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Jan 2025

