



The Investment Edge



BetaVest, Part Two: The Software Side

In part one last month, I introduced BetaVest as a great tool for investment professionals to determine probable investment results because it uniquely matches cash flow to customer expectations. The 20-minute consumer video helps investors rethink and manage financial needs and educates them about risk, return, and cash flow. In a sense, the first column was about the heart of the program, and this part is about the brain — BetaVest's computer software. The video and the software work together, and one is not complete without the other. Access to the video, an excellent online training guide, and the software itself all are provided to BetaVest subscribers.

The Software

Like other financial planning software, the BetaVest CASE Management System begins with tabs of customer information to be completed by the planner. If you are used to Financial Profiles, ESPlanner Plus, Torrid's Retirement Savings Planner, NaviPlan, or other popular planning software titles, you will recognize CASE's data entry screens, but they are a bit leaner and meaner than most.

A great feature of CASE (the letters stand for Cash Flow Allocation Sequence of Return Expectation) is that you quickly can complete the essential customer information and move on to produce an illustration within minutes. (For an even quicker down-and-dirty run, some input data may be added later; or if you just want to kick the tires, you can use one of the built-in sample customers. I like Sample Customer John Dollar, who might or might not be a spirit from "Yours Truly, Johnny Dollar," perhaps the last great radio detective show, partially scripted by Blake Edwards and popular in the 1950s.)

The first screen is for personal data — such normal things as names and birth dates. The second gets right to the nitty-gritty, brainy part of the software; it's where you enter the yearly amount and number of years of income required in retirement. Don't like the impressive embedded actuarial data? Then plug in your own numbers. Don't like 3.5% as an inflation rate? Use what you or your customer wants.

This is where the wheat is separated from the chaff — BetaVest will show you more of the truth, and the truth will set you free. In other words, it will show the prospective results for your customer's plan based not on the "averages" of historical growth, deposits, and withdrawals, but on the more likely results when the numbers are timed and tuned by BetaVest.

You also can raise the income need yearly to meet inflation expectations, increase benefits in five-year increments, or take a percentage of the estimated portfolio value yearly. An example might be 4%, and if the total portfolio were \$1 million, that would provide \$40,000 the first year. If BetaVest and the numbers say that on average, given cash flow in and cash flow out, the growth expectation is 6% yearly, the estimated benefit could increase each year. You might have to re-jigger the overall numbers to maintain the goal income over time because the 6% average would not hold true year after year.

In my first column about BetaVest, I discussed the fact that the use of "averages" can be quite dangerous to one's future financial well-being. BetaVest does the best job yet of fixing that glaring problem.

Portfolio values, the third tab, is for inputting data about Section 401(k) plans, savings accounts, brokerage accounts, and IRAs, and delineating what is qualified and what is non-qualified.

All of the tabs are arranged in such a logical, intuitive fashion that it would be easy to build and calculate a portfolio and plan without any formal software training.

Allocation Simulation

No one likes entering raw data, but there's a refreshing minimalist aspect to the BetaVest tabs. You can enter the required information quickly and get on the main course in minutes.

You might be astounded when you first encounter the four sample portfolios — minimal, low-risk, moderate-risk, and high-risk. Before punching the hot button, the one that says “apply cash flow,” everything looks hunky-dory. But oh, mama! After you push that cash flow button, all four portfolios turn to garbage. Before cash flow, the probability of success might be 100% in all of the portfolios; after, it might be 4% in the conservative one, 6% in another, or maybe 30% in the most aggressive offering.

BetaVest, in terms of probable outcomes, seems better than a Monte Carlo simulation — which, let’s face it, uses mathematics that are difficult for many customers to understand. Monte Carlo is as dry as toast when compared to the more common-sense BetaVest approach. After you get over the shock of applying withdrawals over time (and income, if there is additional income), as well as risk tolerance and the other data in the tabular information, BetaVest provides w-a-a-y cool portfolio graphics.

The software magically transforms the expected number of years needed for income into rolling periods dating back to 1926. Let’s say that John and Mary are both 65 and both expect to live 24 more years.¹ BetaVest looks at all the rolling periods from 1926 to the present (1926 to 1950, 1927 to 1951, 1928 to 1952, and so on), applies withdrawals and income, draws outcomes based on those successive time periods, and strikes probabilities of success.

Optimize Cash Flow or Optimize the Portfolio?

To be or not to be, that’s the question. In BetaVest, the question is different: You can work on optimizing either the cash flow or the portfolio. In the former case, you are trying to arrange the components — funds, stocks, ETFs, and non-investments — into a growth strategy that in one or more of the four portfolio models has a high probability of success. In the latter, the idea is to reduce income requirements, add income (a second job, post-retirement?), or both. In developing the plan, you might wind up with a combination of the two forces.

BetaVest allows you to input many different asset classes — small-cap, large-cap, T-bills, and so on — to help get the portfolio just right. The program might go through 1,600 iterations to find one conservative portfolio, which might or might not pass muster with you or the client, and it might go through 5,000 combinations in all of the risk categories to produce what I call the Fab Four, the quartet of portfolios that run from low-risk to high-risk.

Fortunately, the software does all this calculating fast as it searches out the ideal mix. Obviously, I like BetaVest. My only concern is about the limitations of asset classes — I’d like to see such sectors as REITs, energy, and commodities added, but it probably would be hard to measure such choices back to 1926. On the other hand, most planners can allow for such outside-the-box investments by adding the expected income in the information section of the appropriate data tab.

Reports

BetaVest offers robust and colorful reports, including disclosures. You can hit one button to choose all or select individual reports through a menu. The reports include a review of the educational concepts discussed in the video and in the data-gathering processes; a restatement of personal data, goals, and risk tolerances; a range of historical rolling outcomes; a cash flow report; and many more choices.

More? There even is a report that discusses and authorizes possible changes in the customer’s risk profile (it might be easier to hit the target with a slightly more aggressive portfolio, for example). And there’s a report for product suggestions.

As is true of everything in BetaVest, the reports follow a logical path to conclusion. From the video to data-gathering to creating the reports, the user follows a well-lit pathway. Nothing is hidden, and all makes perfect sense. Most important, it is simple and intuitive.

For the professional who helps customers with portfolio-building and investment decisions, nothing out there is better than BetaVest.

Two Ways to Skin the Cat

I like two software programs for financial planning. Readers of “The Investment Edge” might remember Retirement Savings Planner (RSP) from Torrid Technologies, reviewed about two years ago. This worthy program, created by Tim Turner, debuted in 1995. Like BetaVest, RSP accounts for cash flow nicely, but it does not use rolling period returns. With RSP, you enter variables such as assumed growth rates and income needs, and it makes outcome projections.

Why do I mention RSP in a column devoted to BetaVest? If you are a planner or other financial professional who does not do portfolio work or use third-party managers, you might consider RSP. It does an excellent job of showing customers a variety of “what if” scenarios, and if you are on the road visiting customers and primarily involved with product work, it will be miles ahead of the standard issue, time-consuming, and complex competition. Torrid uses an earnings assumption and a life expectancy (or override) and measures cash flow out against those reference points.

If you’re like me and you build portfolios and use third-party managers, you might consider BetaVest as your first choice because it relates more, per se, to investments. (I could make an argument to portfolio folks that both programs might be of value because it always is worthwhile to see two sets of results, and I estimate that you could run both programs for one customer with 20 to 25 minutes of data entry.)

You can find RSP at www.torrid-tech.com, or phone Tim and his team at (770) 579-6224.

Back to BetaVest

BetaVest uses rolling periods (tied to the default life expectancy, or override, in retirement of the customers) and asset classes to determine the likelihood that outgoing cash flow will last for one or two lifetimes. For investment portfolio building and planning, the BetaVest software, combined with the consumer video, help customers understand risk and plan investments to realize goals based on the volatility they are able to accept. (Risk tolerance is important — it’s possible that a customer will have a low-risk profile, but that the best low-risk portfolio will have only a 70% probability of success, whereas the best high-risk portfolio might have a 90% chance of meeting its goal.)

BetaVest, for those of us in the portfolio game, provides extra dimensionality — showing the planner and customer the result of varying portfolios and risk scenarios. As I wrote in the first column, if you phone BetaVest at (866) 972-5680 and mention my name, you’ll receive a

temporary password so that you can view the consumer video a few times (highly recommended!) and also check out general information about how the software works. The BetaVest Web site is www.betavest.com. You also can contact BetaVest by e-mail by writing to sales@betavest.com.

BetaVest is a sensational product for determining risk and reward based on portfolio choices. What the customer sees is a million-dollar explanation of why he or she easily can go broke by doing things in the traditional way. The introductory video is so good at helping customers understand outcomes and probabilities that it might blow your mind. (But remember, you might need to watch the 20-minute show two or three times — after all, like me, you are a financial professional, and like me, you probably have some common assumptions — perhaps even some wrong ones — stuck up there among the little gray cells.)

Broker's Bookcase

The Secrets of Economic Indicators — Hidden Clues to Future Economic Trends and Investment Opportunities, by Bernard Baumohl (Pearson Education, Inc./Wharton School Publishing, 2005). The author was a *Time* magazine economics reporter for 20 years and is now director of the Economic Outlook Group.

The book is a delight. From the secrecy surrounding the release of the government's economic numbers (Baumohl puts the reader in the middle of this CIA-like procedure beautifully) to understanding the business cycle or grasping why the index of leading economic indicators is important to the investment outlook, you get the straight skinny in an enjoyable, highly readable way.

For example, you might not have known that HMI, the housing market index published monthly by the National Association of Home Builders, "... possesses all the characteristics of a big-time market mover. It is based on responses directly from homebuilders who have the best pulse on current and future homebuilding trends. Furthermore, the HMI is released in the same month it reports on, long before any of the other major monthly housing reports are out." The author notes that this indicator often is ignored by professional money managers.

The Secrets of Economic Indicators will introduce you to all of the widely used indicators and many others that get scant attention. After you've read it, you might not qualify to succeed Ben Bernanke as chairman of the Federal Reserve Board, but you'll have a head start on your investment competition, and you'll improve your game.

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Footnote:

1. You can use the software's embedded actuarial tables, in which case Mary would live longer, or customers can choose their own estimate. In my practice, when I ask customers how long they might live, the answer is probably fairly accurate because they know their current health and the longevity of their forebears.