MSc in Global Finance

Introducing Mr John Cass

Mr John Cass is a 40 year old factory worker. He wants to save for his retirement. He plans to retire at 65. His annual salary is currently $50,000pa, and he is confident that his salary will increase by around 2.0% every year (in line with inflation) until he retires. He currently has $20,000 in a small Defined Contribution pension scheme. With the help of a professional financial planner he has been advised that he can only afford to contribute $5,000 to his pension pot every year until he retires. The financial planner has told him that if his pension savings can accumulate to around $340,000 by the time he retires he should be able to buy an annuity (a pension income) that will give him an annual pension of approximately 25% of his salary in the final year at work. Mr Cass believes that this pension, combined with another small pension that he will be entitled to from previous employment, will enable him to live a reasonably comfortable life in retirement.

Mr Cass therefore needs an investment strategy that will generate the returns on his pension savings so that it accumulates to $340,000 by the time he retires in 25 years' time. Outside of his pension Mr Cass has no other savings or significant financial security.

The financial planner also undertook an assessment of Mr Cass' attitude to risk. The results of this assessment can be found below.

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Risk Discussion Tool

Risk Profiler

How long before you expect to start taking retirement income? (Enter a number of years from 3 to 30. This time period is very important in the risk assessment process).	25 years
Do you have an emergency fund to provide for unexpected expenses, to avoid needing to draw on medium- to long-term savings to meet immediate needs? (You should allow the equivalent of at least three months net income for emergencies).	No
What is your expectation of your future earnings up to retirement?	I expect my earnings to keep pace with inflation
What percentage of your total assets, (excluding your home) are you proposing to invest now?	Less than 25%
Which statement most closely reflects your current financial situation?	I have a mortgage and some short-term obligations
Which statement best describes your objectives for this investment?	Stability is more important than higher returns
At the beginning of the year you have £100,000 invested. The chart and options below show the performance of four possible investments. Each bar gives a range of possible values at the end of the same year. Which investment would you prefer?	Portfolio A: It could be worth anywhere between £93,000 and £113,000
What level of fall in the value of this portfolio over a one-year period would concern you, bearing in mind that investment in shares requires a long-term view?	More than 10%
Suppose one year ago you invested £100,000 in a portfolio. Today you've checked its value and find it is now worth £87,000. How would you feel?	Nervous – I'd want my adviser to sell part of the portfolio and invest the proceeds in a less volatile investment
You are more concerned that your investments grow faster than inflation, than you are about returns over any one-year period.	Agree
If you were advised that your current fund and future savings are not sufficient to meet your retirement goals, what action would you take?	Take more risk with half of the money and increase your savings
What is your attitude towards purchasing an annuity* to provide income in your retirement?* Annuity – This is the contract you purchase from an annuity provider using a lump sum of money (eg proceeds of your pension fund) to guarantee you an annual income for life or a period of time.	My preferred option to any other form of retirement income provision
Which of the following statements best describes your other retirement provisions?	I expect to receive state pension benefits

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Risk Discussion Tool

For financial advisers only

This document has been generated using Old Mutual Wealth's Risk Discussion Tool and shows the range of annual 'expected returns' for Old Mutual Wealth's risk levels 1 to 10 and the average of all possible returns within the range of each risk level.

It is important to remember the figures generated by the tool below are not intended to be and should not be taken as a projection of the likely returns from the Old Mutual Wealth risk levels. This is intended to support the risk discussion between an adviser and a client following the completion of a Old Mutual Wealth risk profile questionnaire.

They show the implied volatility and mean expected return of Old Mutual Wealth risk levels 1 to 10 to two standard deviations in one year (ie all returns are expected to be between these extremes in 95 years out of 100; this is often described as a 95% confidence level). The figures shown are the expected arithmetic average returns and the ranges assume that returns are based on a log normal distribution. The return figures shown are gross of tax and underlying manager charges.

Date of assessment: 11/02/2017
Product selected: CRA (Pension)

Output from the Old Mutual Wealth Risk Profiler: 4

Upper return

▲ **21.36%** In 95 years out of 100, this is the highest expected level of return for a given level of risk. There is a 2.5% chance that returns could fall outside the upper return figure in one year.

Average of all returns

4.01% This is the average of all possible returns within a risk level in one year.

Lower return

▼ **-13.33%** In 95 years out of 100, this is the lowest expected level of return for a given level of risk. There is a 2.5% chance that returns could fall outside the lower return figure in one year.

✔ Chosen risk level

A risk **level 4** investor should be prepared to accept annual returns somewhere within the range of a **-13.33% loss** and a **21.36% gain** - returns within this range would be expected 95% of the time. It should be remembered that there is a 5% chance that a risk **level 4** portfolio will experience an annual return outside this range - this means an investor may experience **losses greater than -13.33%** or **gains greater than 21.36%** at some point(s) during their investment in one year.