VANTAGE POINTE
Vantage Financial Partners Limited

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DAVE GRANT, CFP®

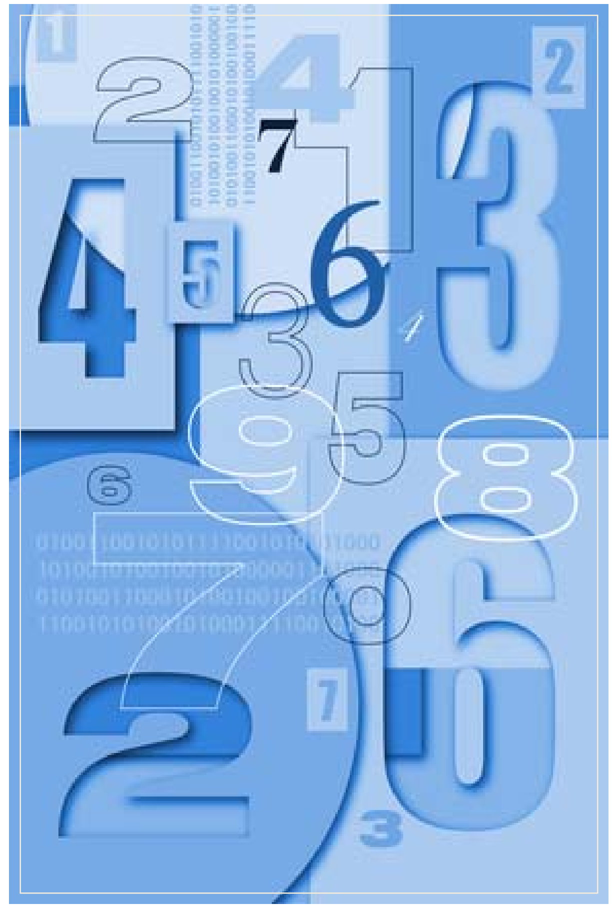
EXPLORING PROBABILITY ANALYSIS

Most of us believe if we save a certain amount of our paycheck, live below our means, and annually withdraw a reasonable amount from our portfolio, our money will last throughout our lifetime. But with rising healthcare and education costs, increased longevity, and a growing need to support both parents and children, will your money outlast you or will you outlast it? Such demands can impede financial success in the retirement years. In order to prepare for these events, and meet other goals as they arise, it is best to assess your complete financial situation early and often to discover adjustments that could lead you on a more successful retirement path.

MONTE CARLO SIMULATION

The planning team at Vantage utilizes a tool for probability analysis called the Monte Carlo Simulation. Using this tool, financial situations can be projected onto hundreds of market scenarios to provide a probability of success ratio toward reaching one's goals. This modeling takes into consideration current portfolio construction, existing and future resources, income tax rates, and current and future expenses as well as desired retirement income. Aren't hundreds of scenarios too many? Why not use an average rate of return for each year and keep it simple? In reality, many variables must be factored into the mathematical formulation when estimating probabilities of success. Through the use of the Monte Carlo Simulation, these random variables and factors can be readily considered.

> *"...seize opportunities to make small changes now in anticipation of large effects later."*



RANDOM VS. LINEAR?

In the past, planners used a linear projection, or static rate of return, to project future portfolio earnings and growth. Linear projection assumed the same rate of return over the life of the portfolio. Obviously this proved to be a flawed system as it didn't match how the stock market typically behaved. In reality, the stock market fluctuates in a much more random manner which is addressed in the Monte Carlo Simulation. The Simulation performs hundreds of trials using various return and standard deviation projections when considering a specific portfolio design. This method of random analysis provides a more thorough glimpse into

Nine North Vail Avenue Arlington Heights, IL 60005-1430 847-590-9191 847-590-9009 fax www.vantagefinancial.com

future possibilities, and can allow for adjustments of your current situation.

Since this modeling is extensive and powerful in its calculations, it naturally poses some challenges. When running a financial scenario through the Monte Carlo Simulation, it is important to include as much detail as possible. The accuracy of the probability of success returned, requires the information entered to be precise and complete. This process is time consuming and extensive. Additionally, keeping the information up-to-date is important when projecting over a number of decades. Changes in your circumstances can lead to drastically different probabilities of success. By maintaining awareness of the ways these changes affect your calculated probability for success, you may be able to seize opportunities and make small changes now in anticipation of large effects later.

We all strive to make wise financial decisions. But the use of the Monte Carlo Simulation in the financial planning process can provide a timely and efficient means to factor some of the many variables involved in making wise decisions. Of course, like most tools, it has its limitations and should not be relied upon solely to assess your financial condition. At Vantage it is only one of the many methodologies utilized in the development of a comprehensive financial plan. To discuss the Monte Carlo methodology in more detail, and to find out how it can be used toward your financial goals, contact your Relationship Manager.

VANTAGE NEWS

We welcome 2011 with anticipation, especially in light of how 2010 came to an end! On December 29th, Maria celebrated with her daughters as each welcomed their babies into the world. Levi (6lbs, 19") and Julia Grace (8lbs, 20") were both born on December 29th in the same hospital, in rooms next to each other! Both were happy and healthy and will thrive under the care of a glowing, doting grandmother.

Julia Grace

Dave and his wife Sarah, took an overdue trip to England to introduce their 10 month old son, Eli, to the family. After many weather induced delays, they were able to fly out Christmas Eve. A safe arrival Christmas morning started a celebration which included time with family and an overindulgence of England-specific Christmas food.

Levi

The team at Vantage encourages you to join us in celebrating with Dave the successful launch of NAPFA Genesis. Dave founded this networking group which will focus on the needs of students, associates and fee-only planners under the age of 33. He will serve as leader for this new organization established to help younger planners in the industry learn how to successfully develop their careers while learning how to help strengthen the fee-only planning profession.