

MCP SUITE 2007 PROFESSIONAL: THE ADVISOR'S TRUE ADVANTAGE

Individuals preparing for retirement need more from their financial advisor than the simplistic planning techniques that are currently being employed. It has been disturbing to watch the retirement planning industry revert back to the use of 'average returns' and separating investments for liquidation. This is a step in the wrong direction: clients need sophistication and not simplification.

MCP Suite 2007 Professional allows a financial advisor to provide what a client really needs as they prepare for retirement: The ability to model their retirement under a variety of conditions. Most of what financial advisors currently provide to clients is promises that will never come true. MCP Suite 2007 Professional establishes the advisor as the client's 'Retirement Modeling Guide' as they work together to explore retirement planning goals and portfolio design under any number of conditions.

MCP Suite 2007 Professional gives advisors the capabilities to:

- Enter any security, index or portfolio returns into the program as a User Defined Index.
- Create a Synthetic Investment Model that allows you to apply Alpha, Beta and Risk Free rates to any index.
- Create portfolios of Synthetic Investment Models – up to 50 SIMS in a portfolio.
- Create Retirement Planning Models using user inputs or Drag-and-Drop values from MS Excel.
- Select a different historical time period for each user defined index included in the analysis.
- Compare 2 portfolios under similar market conditions or the same portfolio under 2 different conditions, i.e. Bear or Bull.
- Choose historical datasets in either ascending or descending streams.
- Retirement Plan Modeling with detailed Monte Carlo Simulation analysis, to help you analyze probabilities or success or failure.
- Present resulting analysis in a concise 20 page report that details all aspects of the Retirement Modeling.

THE RETIREMENT PLAN MODELING PROCESS, STEP-BY-STEP WITH MCP SUITE 2007 PROFESSIONAL

Let's imagine a scenario together: A client concerned with whether their retirement savings will go the distance comes to your office for assistance. They have a portfolio of mutual funds in their former employer's 401k plan and similar investments in IRAs that they have accumulated over their working years. After gathering their investment information and establishing retirement income goals, you let them know you can meet back in a week and at that time you will have analyzed their current portfolio under a number of market conditions and will propose alternative portfolios that may provide a higher probability of successfully providing for their retirement.

Our first step is to create SIMs for each of the client's investments. In this case we will consider that all investments are all mutual funds. So for all mutual funds with portfolio managers that have changed over the year, we need to look up the Alpha and Beta for each mutual fund. For mutual funds with constant managers we can gather their annual returns. Once we have this information, we can begin the process of creating user defined indexes and Managed SIMs.

In order to enter a SIM based on annual returns (for the mutual fund with constant management), we need to add the annual returns as a user defined index. We can either add the annual returns in the form or we can drag and drop returns from an MS Excel spreadsheet. All we need to do to complete the process is assign a name and then save. This step can be done for any type of investment in the world (even investments from outer space but they account values will be measured in US \$). We would need to repeat this process for all investments with benchmark indexes that are not currently

in the software. You can get this information from any source; it is your decision. By the way, MCP Suite 2007 software is designed so that all index data you enter is stored into a SQL Server 2005 Express Edition database. This provides you with the tools you may want to use to back up your database or make direct modifications. The user interface is free from Microsoft and is easy to download.

Now that we have our entire index data entered we can begin the process of creating all the SIMs to represent all the mutual fund investments within the client's portfolio. We use the simple to use interface assign naming information, Alpha, Beta and our forecasted Risk Free Rate. For SIMs based on the actual security returns, we simply apply a Beta of 1 and 0% for both Alpha and Risk Free. An additional feature of the software is that you can back up your SIMs to our web server database for retrieval.

For our final step before we begin retirement modeling is to create our portfolio of investment. We simply create a new portfolio and add a name and add each security SIM. We can assign an asset class to the investment (from the selection that comes with the software or add one of your own) and a dollar value. We can create also create an alternate portfolio that includes additional investments or replaces various investments with alternates.

Now we can begin our retirement modeling...

Using the SimStudy Wizard, we can enter the client's name and the advisors name on the first screen. Then we can choose the 2 portfolios that will compared (at first we can use the existing portfolio over 2 time periods and then second we can compare the current portfolio with the alternate portfolio). Next is the opportunity to select any time period (as long as the necessary data is available) for each index that the portfolio SIMs are based on. We can select the time periods with ascending or descending yearly orders. This allows us to create the market conditions that we wish to test. For this client well will use stock index activity over the 1970's to represent the Bearish market and the 80's for the Bullish market. In either case we will use the last 10 years for bond and interest rate indexes with a descending order(the reason for this call is that the forecast for interest rates will rise in the amount that the decreased over the last 10 years). The next step is to enter the client's inflows and outflows from the Retirement Fund. This can be entered into the user form or values can be drag-and-dropped from an MS Excel spreadsheet.

Now we can execute our analysis. Once the analysis is completed we can review the modeled account values, returns and resulting Monte Carlo Simulations. After reviewing the charts we can then generate a comprehensive report that demonstrates the analysis for the clients. Highlights of the report are annual account values for each scenario (used to evaluate the client's acceptance of risk) and Monte Carlo Simulations that result in estimating probabilities of success.

Once the current portfolio has been analyzed, we can toggle back through the steps of the wizard to select the alternate portfolio we have developed and then select the index time periods. We can also adjust the Retirement Fund inflows and outflows to accommodate changes in the portfolio design i.e. use of taxable vs tax free. Then we can run the analysis to determine the potential improvement on the probabilities of providing for a successful retirement within acceptable risk tolerances.

It's just that easy. Now you are fully prepared to meet with your client, and can propose your solution with confidence.



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