

TOPIC: PRIVATE WEALTH MANAGEMENT

TOTAL POINT VALUE OF THIS QUESTION SET IS 18 POINTS

Helen Jackson has just won the Big Jackpot Lottery. She has chosen a lump-sum payout and, after taxes, will receive \$3.7 million. In seeking professional investment counsel, she has chosen John Medford, CFA.

Jackson is a 39-year-old single mother of three. Following her divorce last year, she won a court battle to obtain full custody of her children, ages 13, 10, and 8. She owes \$158,000 in legal bills and \$57,000 in credit card debt. Jackson lives with her children in a small rented house. She works at the local Super Box-Mart store as an assistant manager earning \$50,000 after-tax per year. She has been a valued employee for eight years and receives full health insurance benefits for herself and her children. Comparable health insurance is available for \$1,250 per month (after-tax) and it is estimated to increase in cost at the same rate as overall inflation. Jackson has no assets other than the lottery proceeds and has no other sources of income.

Jackson tells Medford that one of her goals is to improve her family's quality of life. She has found a home in a more upscale neighborhood at a total cost of \$700,000. Medford calculates that the family could live comfortably on \$125,000 of after-tax income per year, assuming they have no mortgage payments and no health insurance costs. As well, Jackson wants to ensure that her children get an education and other opportunities that she never had. She expects all three of her children to attend college. Additionally, she wants to have enough money left over for a comfortable retirement in about 25 years. Finally, Jackson wants to leave her position at Super Box-Mart and go to college to earn a degree herself.

Jackson tells Medford that she "never again wants to owe anyone anything," and that "the money must be managed in a way so that we never risk losing anything."

Medford also discusses the concept of human capital with Jackson and points out that if Jackson goes ahead and quits her job to attend college now, her total wealth is likely to increase significantly in the long run.

Two of the financial goals from Medford's discussions with Jackson include:

- Funding the education of Jackson's three children.
- Funding a comfortable retirement for Jackson.

Jackson's degree of risk tolerance regarding funding the education of her three children is relatively:

A) low.



B) high.



### Explanation

**Scoring key:** (1 point possible)

1 point for correctly selecting low risk tolerance.

(Study Session 10, Modules 21.3, 21.4, 21.6, LOS 21.d, 21.e, 21.g, 21.i, 21.j; Study Session 11, Module 23.5, LOS 23.k)

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### Question #2 of 116

Question ID: 1433972

**Justify** your response to Question 1 with *one* reason.

### Explanation

- Jackson has relatively **low** risk tolerance for the goal because she wants to ensure that her children get an education that she never had (saying that it is a relatively near-term goal given that the eldest child is age 13 and, therefore, only about five years away from starting college, is also an acceptable reason).

**Scoring key:** (2 points possible)

2 points for correctly justifying the response.

(Study Session 10, Modules 21.3, 21.4, 21.6, LOS 21.d, 21.e, 21.g, 21.i, 21.j; Study Session 11, Module 23.5, LOS 23.k)

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### Question #3 of 116

Question ID: 1431455

Jackson's degree of risk tolerance regarding funding a comfortable retirement for herself is relatively:

A) low.



B) high.



### Explanation

**Scoring key:** (1 point possible)

1 point for correctly selecting high risk tolerance.

(Study Session 10, Modules 21.3, 21.4, 21.6, LOS 21.d, 21.e, 21.g, 21.i, 21.j; Study Session 11, Module 23.5, LOS 23.k)

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### Question #4 of 116

Question ID: 1433973

**Justify** your response to Question 3 with *one* reason.

### Explanation

- Jackson has a relatively **high** risk tolerance for the goal because it is a long-term goal, with retirement expected in about 25 years.

**Scoring key:** (2 points possible)

2 points for correctly justifying the response.

(Study Session 10, Modules 21.3, 21.4, 21.6, LOS 21.d, 21.e, 21.g, 21.i, 21.j; Study Session 11, Module 23.5, LOS 23.k)

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### Question #5 of 116

Question ID: 1434296

**Discuss** *one* issue relating to Jackson's *goal quantification* and/or Medford's role in doing so.

### Explanation

Regarding *goal quantification*, Jackson has quantified the amount of debts to be repaid, the cost of purchasing a home and her living expenses. Medford should assist Jackson to estimate the cost of college education for her children and herself. He should also work with her to quantify her retirement spending needs.

**Scoring key:** (2 points possible)

For goal quantification, 1 point is awarded for stating that goals have been quantified and 1 point is awarded for stating goals that have yet to be quantified.

(Study Session 10, Modules 21.3, 21.4, 21.6, LOS 21.d, 21.e, 21.g, 21.i, 21.j; Study Session 11, Module 23.5, LOS 23.k)

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## Question #6 of 116

Question ID: 1434297

**Identify** *three* issues relating to Jackson's *goal prioritization* and/or Medford's role in doing so.

### Explanation

Regarding *goal prioritization*, Medford and Jackson agree that they need to discuss which of Jackson's goals are the most important. The debt repayment, purchase of a home, the funding of college education for Jackson and/or her children, and a comfortable retirement lifestyle are competing priorities.

Medford could use capital sufficiency analysis to determine the likelihood of achieving the competing goals, given Jackson's investment portfolio.

He should also help Jackson reassess her current goals if these goals are not supported by capital sufficiency analysis.

**Scoring key:** (4 points possible)

2 points for stating that there are competing goals. 1 point for stating the use of capital sufficiency analysis in determining whether competing goals can be achieved and 1 point for stating the reassessment of Jackson's goals if they are not supported by capital sufficiency analysis.

(Study Session 10, Modules 21.3, 21.4, 21.6, LOS 21.d, 21.e, 21.g, 21.i, 21.j; Study Session 11, Module 23.5, LOS 23.k)

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## Question #7 of 116

Question ID: 1434298

**Discuss** *other considerations* for the Jackson portfolio.

### Explanation

Regarding *constraints*, Jackson's statement indicates a strong aversion to debt and any risk. Therefore, Medford will need to provide her with financial education as her extreme aversion to any loss may prevent her investment portfolio from meeting her financial goals. In other words, her extreme risk aversion could result in investing her investment portfolio in money market securities, for example, that may result in insufficient returns to fund her long-term goals such as retirement.

**Scoring key:** (3 points possible)

1 point for stating Jackson's aversion to debt and any risk. 2 points for discussing that her stance will need to be modified through education if her investment portfolio is to realistically achieve her financial goals.

(Study Session 10, Modules 21.3, 21.4, 21.6, LOS 21.d, 21.e, 21.g, 21.i, 21.j; Study Session 11, Module 23.5, LOS 23.k)

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