WHERE ARE GOALS IN RISK SCORES?

Why client lives can’t be reduced to a single number.

Executive Summary

- **Risk scores** reduce complex lives to a single number that **doesn’t capture real goals**.
- Portfolios built on **risk scores treat very different** families as if they were **the same**.
- **Risk scores** swing with **market moods**, leading to **reactive conversations** instead of resilient plans.
- **Real risk is not volatility**. It’s missing milestones that matter most to clients.
- **The path forward**: anchor portfolios to **client goals**, not market moods.

Introduction: Sarah & James ... and David & Linda

Sarah and James are in their mid-forties, raising two kids, and hoping to retire in their early sixties. Their goals are clear:

- Fund college.
- Retire comfortably.
- Help care for aging parents
- Maybe buy a vacation home.
- Leave something for their kids.

Traditionally, they’d fill out a risk tolerance questionnaire. The result? A “moderate” label and the same 60/40 portfolio as everyone else. But nothing about that portfolio speaks to their actual goals.

How does this portfolio connect to their life goals and financial plan?

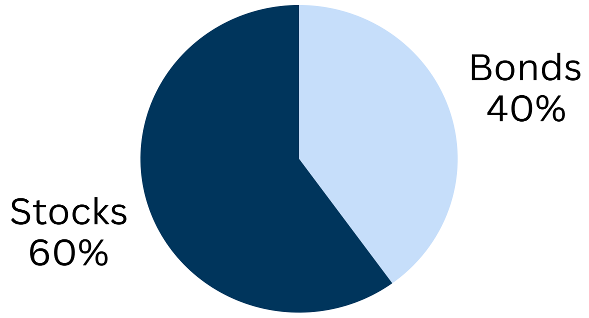
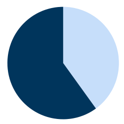
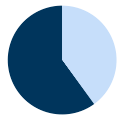


Exhibit 1: Two Investors. Different Goals. Same Portfolio.

	Sarah & James	David & Linda
Current Age	44	60
Desired Retirement Age	67	64
Current Income	$95,000	$260,000
Savings Rate	3%	8%
Investable Assets	$385,000	$1,400,000
Retirement Withdrawal Goal	$90,000	$120,000
Risk Tolerance Score	**Moderate**	**Moderate**
Stocks Bonds		

For illustrative purposes only.

Now compare them to David and Linda. They're in their early sixties, kids out of the house, thinking about winding down their careers. Their goals look different:

- Generate reliable retirement income.
- Manage healthcare costs.
- Travel while they're healthy to enjoy it.
- Protect what's left for their family.

Two families. Two very different stages of life. Different time horizons, cash flow needs, and risks that matter.

And yet both couples take the same risk tolerance questionnaire, both score "moderate," and both end up with the same 60/40 portfolio.

Their lives are complex. College tuition, retirement income, growth, preservation. All flattened into a single number. That's the mirage of risk scores. They only claim to know one aspect of the client and that in itself is very debatable.

The Trap: A Moving Target in Changing Markets

Even if risk scores did capture goals, they're not stable. They move with the markets.

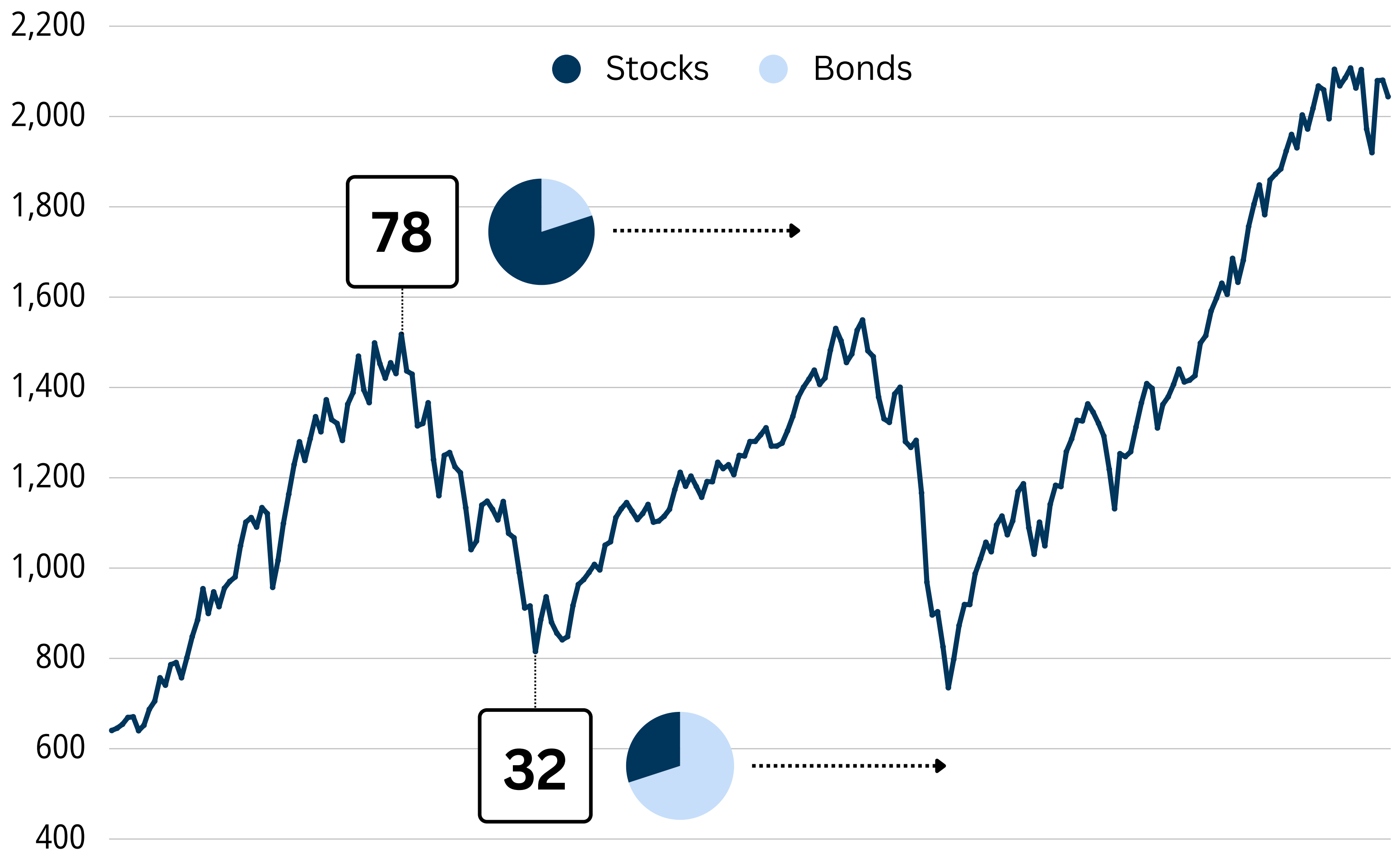
When markets rise, clients test "aggressive." After a downturn, the same people suddenly look "conservative." Confidence goes up in bull runs. Fear dominates in bear markets. The result? Advisors are pulled into reactive conversations, whipsawed by scores that reflect moods, not needs. One advisor put it best during a recent webinar:

> *"I haven't seen anyone talk about this. **The very idea of Risk Tolerance is not just overused, it is incorrect from the get-go**. We financial planners/investment advisors preach rational, rather than emotional investing. Yet, the fundamentals of our portfolio structure include an expectation of emotional misbehavior. **Why do we encourage that which we discourage?**"*

Exhibit 2: Risk Tolerance: A Moving Target in Changing Markets

S&P 500 Price Index

20 years of monthly data (1/1/96 to 12/31/15)



Source: Macrotrends. Data from 01/01/96 to 12/31/15. Stocks represented S&P 500 Price Index. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only.

The data backs it up. Advisors know it. Clients feel it. The system is broken.

Most Advisors Agree: Risk Scores Fall Short

89%

Do you think risk questionnaires reflect clients' true preferences? **89% of advisors responded no.**[1]

96%

Do you think risk scores should be the main factor in determining a client's asset allocation? **96% of advisors responded no.**[1]

1. Survey results based on advisor responses conducted by Nebo Wealth in 2023, 2024, and 2025.

Asset Allocation: The Engine of Client Outcomes

Every advisor knows asset allocation matters. When we asked hundreds of advisors to rate its importance on a scale of 1 to 100, the average came back at 90. Four out of five said it's critical.

Key Point: 4 out of 5 financial advisors consider asset allocation critical.

And for good reason. Asset allocation is the single biggest driver of whether a client reaches their goals. It's the framework that determines how hard their money works, how resilient it is through market cycles, and whether it funds the milestones that matter.

But here's the rub: if asset allocation is critical, then the inputs used to set it are even more critical. Today those inputs are often risk scores: numbers that swing with the markets and tell us more about fear or euphoria than about actual needs. This is where risk scores fail. They reduce allocation decisions to a label that ignores the most important context: when money is needed and what it is meant to fund.

For Sarah and James, a generic 60/40 portfolio raises more questions than it answers. Tuition bills are due in ten years, retirement in twenty-five, and maybe a vacation home along the way. A 'moderate' score leaves them wondering if they're taking enough risk to fund it all, or too much risk at the wrong time. The nuance is lost.

Now look at David and Linda. Their paychecks are about to stop. Sequence risk is the enemy. A ‘moderate’ 60/40 portfolio may look balanced on paper, but for them it still means exposure to early-retirement drawdowns that could permanently alter their plan. Instead of confidence, it leaves them worrying whether the income they need will actually be there when the paychecks end.

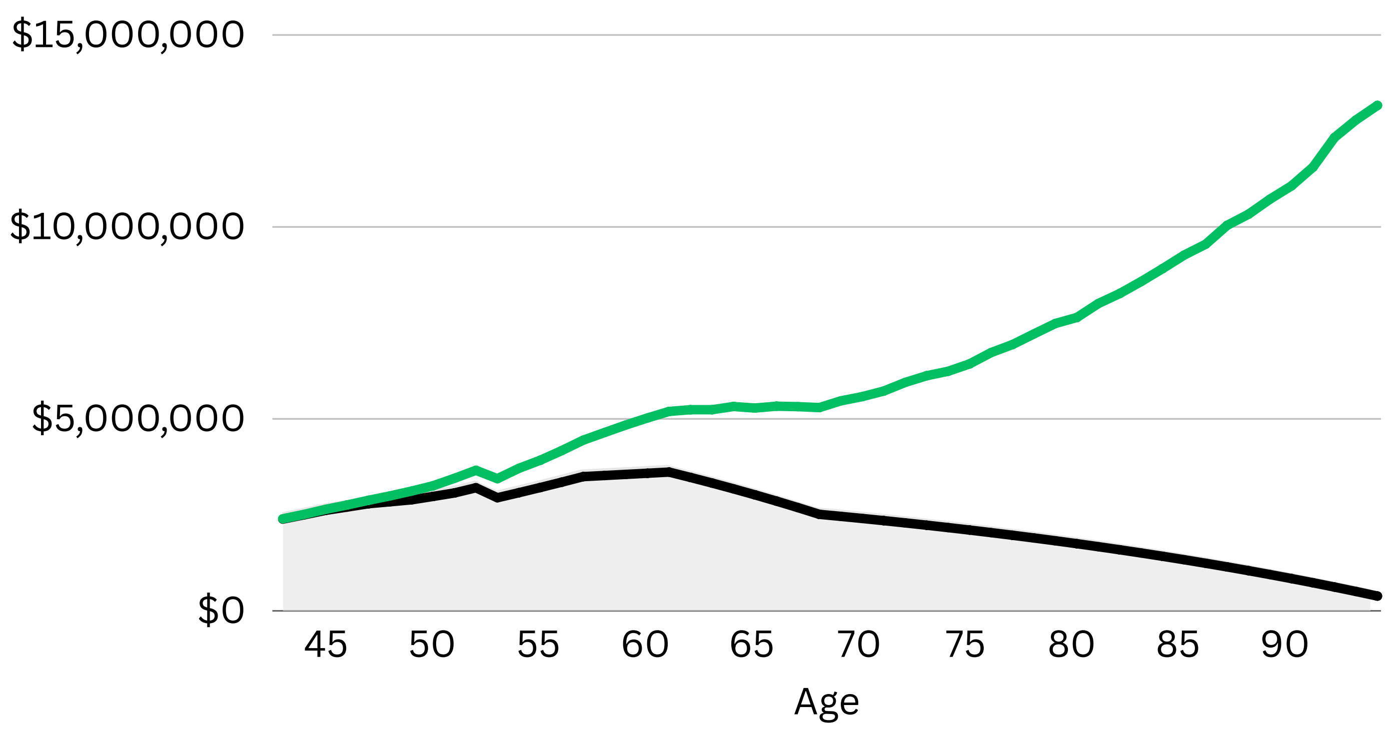
Same score. Same model. Two very different realities.

The takeaway is unavoidable: asset allocation is too important to be driven by risk scores. If it’s the engine of client outcomes, then it must be fueled by client goals, not a number that shifts with moods or markets.

The Alternative: Anchor Allocation to Goals

A better approach starts with a simple question: *“Am I going to be okay?”* Answering that requires a forward-looking target that shows how much wealth a client needs at each stage of life to fund their goals. Tuition. Retirement income. Healthcare. Legacy. Success is redefined: keep wealth above that benchmark and the plan stays on track.

Exhibit 3: Your Personalized Wealth Benchmark™



Personalized Wealth Benchmark™

The wealth required at each stage of a client’s journey to reach their goals.

Most Likely Outcome

Represents the typical path of returns — about half the simulations performed better and half performed worse.

This shift changes how portfolios are designed and how conversations unfold. With a personalized Wealth Benchmark™ in place, advisors can:

1. **Set a clear North Sta**r. Success is not about beating the S&P. It is about staying above the client’s minimum wealth target.

2. **Design allocations with purpose**. Goals become the input to asset allocation, aligning return paths to timelines and cash flows.

3. **Reframe review**s. Conversations move away from market swings and toward progress on milestones that matter.

4. **Stay adaptable**. As life changes, the benchmark updates and so does the portfolio.

For Sarah and James, that means a strategy that ensures tuition is funded in ten years while retirement savings continue to build. It may also give them a shot at their reach goal of a vacation house, instead of being held back by a portfolio that plays it too safe and limits their future choices. For David and Linda, it means protecting early withdrawals so income is reliable in the first decade of retirement, while still preserving the flexibility to enjoy travel and time with family.

Two families. Two benchmarks. Two distinct allocations. Each designed to keep them on track.

Conclusion

For years, portfolios have been anchored to risk scores and market benchmarks. The result has been allocations that reflect emotions more than needs. What clients actually care about is whether their wealth will carry them through the milestones that matter. The evidence is clear: if asset allocation drives outcomes, its inputs must come from goals. Real risk is not volatility. Real risk is falling short. And when portfolios fall short, the cost is not measured in basis points: it is measured in years of lost time, moments missed, and choices taken away.

That’s what makes this responsibility so heavy for advisors. The stakes are not abstract. They are personal.

> **“The cost of suboptimal financial planning and investing isn't quantified in dollars and cents. It's time you sacrifice with friends and family. It's an extra 5 years working a job that controls your life. It's a life of average experiences instead of unforgettable ones.”**
>
> Matthew Garasic, CFP®

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