TIFIN **Risk**

Case Study: Building Trust Through Risk Scoring

In the following case study, we explore how one advisor was able to build trust with a prospect by revealing a gap in her risk preference and risk capacity – plus a need to rebalance her inherited portfolio.

Kenny[1], a financial advisor in Louisville, Kentucky, had been working with an hourly financial planning client who's husband had recently passed and was eager to and ensure that their relationship could continue based on building trust and updating her portfolio to her unique financial situation.

Kenny had been working with a client who opted for a hourly financial planning model to help her through a difficult time. She had been referred by one of his long-term clients as a means of helping her organize her new financial life since the passing of her husband of 34 years. At first, she was very overwhelmed with all the different accounts he had and needed a professional to help her figure out what to do next. She also decided to sell her home and was planning to keep the proceeds in cash ($850k).

Her husband had always chosen his own investments and had a high appetite for risk, while she was always the more conservative one. In total, they had about $1.2 million in qualified money across 6-7 different IRAs.

Determining The Right Amount of Risk

When it came time to focus on the investments her husband had left, she became aware she did not have the expertise or interest in managing the money by herself and decided to revisit Kenny's practice's AUM model. Kenny was eager to convert her from a one-and-done relationship to a long-term partnership.

As a first step, Kenny asked her to complete the easy-to-use TIFIN Risk assessment. With nine short questions, she was able to complete the survey in just a few minutes.

TIFIN Risk emphasizes **Risk Capacity > Risk Preference** since people's appetite for risk may not reflect the amount of risk they can actually take on and may change based on market sentiment.

The TIFIN Risk assessment calculates and compares three risk scores: risk capacity, risk preference, and portfolio risk, with the goal of establishing how much risk the investor can or cannot take on given their current life situation. The focus is on facts over feelings and their *actual* ability to take risk. Scores range from 0-99.

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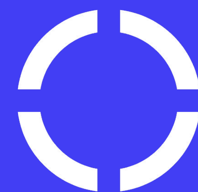


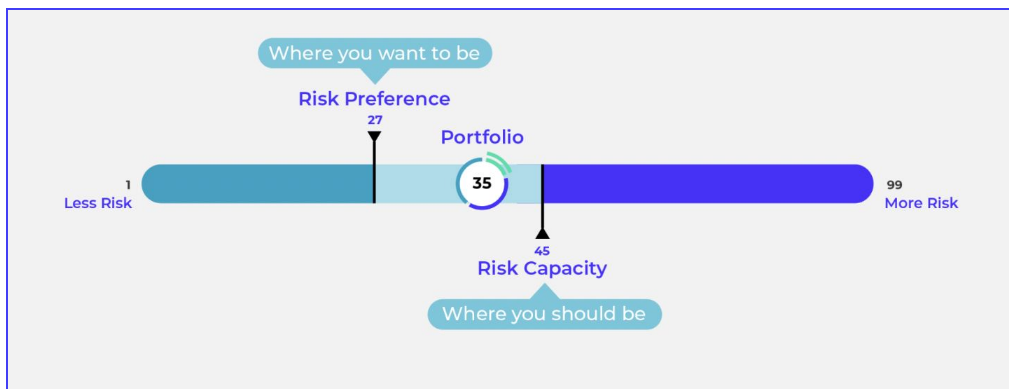
Once the client saw the wide gap between her risk preference (13) and risk capacity (27), she realized that she was able to take on a bit more risk to align with her long-term financial goals. She then became open to investing her home sale proceeds.

She was also surprised to learn the high risk of her husband's portfolio (35). In order to bring the portfolio's risk to be more in line with her risk band, Kenny then moved to create a proposal with an Investment Policy Statement within the TIFIN Risk platform targeting a risk score of 21. He felt this was best to optimize her cash flow needs and keep up with inflation. The clear overview of how her money would be invested across multiple accounts was invaluable to her.

Successful Conversion

Kenny is now managing $1.8 million for his client and she has the peace of mind she was looking for. Without this process, he believes she would have left her home sale proceeds sitting in cash and never had a full understanding of how the IRAs she inherited from her husband were invested, or been able to adjust those investments to fit her unique needs and preferences.

The AI-powered TIFIN Risk tool brought Kenny confidence that he could help this prospect with her immediate financial needs, build trust, and enjoy a positive long-term relationship.



1- Kenny is an actual advisor whose name has been changed for privacy reasons. Story was used with permission.

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Risk tolerance is an investor's general ability to withstand risk inherent in investing. The risk tolerance questionnaire is designed to determine your risk tolerance and is judged based on three factors: time horizon, long-term goals and expectations, and short-term risk attitudes. The adviser uses their own experience and subjective evaluation of your answers to help determine your risk tolerance. There is no guarantee that the risk assessment questionnaire will accurately assess your tolerance to risk. In addition, although the advisor may have directly or indirectly used the results of this questionnaire to determine a suggested asset allocation, there is no guarantee that the asset mix appropriately reflects your ability to withstand investment risk. Rebalancing/Reallocating can entail transaction costs and tax consequences that should be considered when determining a rebalancing/reallocation strategy.