Do Swedish private bankers have a limited perspective?

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Titel: Har Svenska privatrådgivare ett begränsat perspektiv?
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Sammanfattning

Introduktion:


Dessa faktorer har ökat nödvändigheten att lyckas med det egna sparandet. Individer vänder sig till finansiellrådgivare för att höja sina chanser att lyckas med att planera sitt sparande. Detta medföljer att ansvaret på finansiellrådgivare och kravet på goda resultat har ökat avsevärt på senare tid.

Syfte:

Syftet med uppsatsen är att undersöka om Svenska finansiella rådgivare fokuserar på tillräckligt många kriterier hos en individ för att vara kapabel att konstruera en passande portfölj åt individen.

Metodval:

En kvalitativ metod har använts då syftet och informationen som skulle samlas in krävde det. Den empiriska undersökningen bestod av fallstudier där författarna skapat fyra fiktiva individer och de finansiella rådgivarna omeddels att skapa portföljer åt dessa individer. Fallstudierna skickades ut till tio Svenska finansiella rådgivare via elektronisk post men endast två rådgivare svarade inom utsatt tid. Författarna har strävat efter att behålla en hög validitet och realibilitet i undersökningen, men den låga svarsfrekvensen sänker realibiliteten i uppsatsen.

Slutsats:

Den kvalitativa undersökningen visade att Svenska finansiella rådgivare fokuserar på tillräckligt många kriterier hos en individ för att vara kapabel att konstruera en passande portfölj åt individen. Dock verkar det som de finansiella rådgivarna lägger störst fokus på tids horisonten och risk profilen hos kunden.
Abstract

Introduction:
Within the private economy individuals are today accepting an increased individual responsibility for retirement funds and other economic challenges. This is due to the decreased confidence in government programs and that the increased life expectancy raises the risk to outlive the own life savings. The shift from state run security systems to more private responsibility could be spotted in Sweden as well, where one important part of the private economy, the saving system for retirement, has been changed. The pension plan met critics when it was proposed and implemented, especially for the part where some of the responsibility relies on the individual. It was discussed that this huge responsibility might be larger then what many individuals would be able to handle.

These factors have increased the importance of successes in the individuals own saving plans. To enhance the chances of a certain level of success, individuals turn to private bankers to plan their wealth and savings. The position of these private bankers and their performance has amplified more then ever before.

Purpose:
The purpose of the thesis is to describe: if Swedish private bankers look on enough features of an investor to be able to prescribe the appropriate portfolio for the investor?

Methodology:
A qualitative research has been used since the purpose and the information gathered demanded it. Cases where the authors created four fictitious investors was sent out by electronic mail and the private bankers where asked to construct suitable portfolios to each investor. The cases were sent out to ten different private bankers, however only two replied within the deadline. The authors have strived to keep high reliability and validity in the paper; however the small response rate lowers the reliability.

Conclusion:
The qualitative research found that Swedish private bankers look on enough features on a client to be able to prescribe an appropriate portfolio for the investor. However the Private bankers’ main focus seems to be time horizon and risk profile of the investor.
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1 Introduction

1.1 Background

“Millions of people around the world today are relying on self-directed investment accounts […] to provide future retirement income. Since many of these people lack knowledge about how to invest the money accumulating in these accounts, they are seeking the guidance of experts.” (Bodie, 2001 page 1)

As seen above, individuals are accepting the increased individual responsibility for retirement funds and other economic challenges as expenses connected to children. This is due to the decreased confidence in government programs and that the increased life expectancy increases the risk to outlive the own life savings (Harvey & Scott, 1997). The shift from state run security systems to more private responsibility could be spotted in Sweden as well, where one important part of the private economy, the saving system for retirement, has been changed. The pension plan met criticism when it was proposed and implemented, especially for the part where some of the responsibility relies on the individual. It was discussed that this huge responsibility might be larger then what many individuals would be able to handle (Genbog, 2006). Beside the new system for pension plans Sweden follow the global trend of shifting demographics, with a larger block of retires that has to be supported by a smaller part of labouring population, that also contributes to a enhanced responsibility for each person over the own financial portfolio (Dagens Industri, 2006).

These demographic and retirement plan changes imply that the importance of successes in each individual saving plan is essential (Campbell & Viceira, 2002). The shift of responsibility from the government to individual also effects the profession of private bankers. To enhance the chances of a certain level of success, individuals use a private banker to plan their wealth and savings. Since the importance of success in private saving has increased, the position of these private bankers and their performance has amplified more then ever before (Kihlström, 2006).

The increased responsibility for the individual combined with empirical evidence that Swedish inhabitants do not plan their saving portfolios efficiently creates a situation where private bankers are needed and the success of their work are important (Kramp, 2006).

1.2 Problem Discussion

“As in medicine, if the condition is misdiagnosed, the prescribed treatment may be of little value to the patient” (Gibson, 1996 page 1)

Modern finance theory started off with the mean-variance analysis by Markowitz in 1952, where the author modelled a framework for investments if the investor only worried about mean and variances (Campbell & Viceira, 2002). By quantifying the link between portfolio

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1 An efficient savings portfolio has the maximum rate of return for every level of risk. For more information read 2.6 Efficient frontier.

2 Mean is the average return of an investment over an extended period of time (Reilly & Brown, 2003)

3 Variance is one of the most common measurements of risk. It is a statistical measurement of the dispersion of returns around the expected value. The larger the variance is the greater is the risk (Strong, 2000)
risk and portfolio return Markowitz founded the modern portfolio theory (Amenc & Sourd, 2003). But how should a private banker find the right mix of mean and variance for a client? As Gibson stress in his quote, above, it does not matter if the private banker knows everything about mean and variance if the private banker still is not able do deliver what the client needs. There exist many features of an investor that explains why different risk and variance in a portfolio might be appropriate for that single investor. What kind of features should a private banker care about and which can he ignore?

Gibson (1996) has developed a flowchart around the process of money managing that can be seen in figure 1.2.1. The first two steps; Gather client data and Identify the clients needs, constraints and unique circumstances, is grouped in *know your client*. These two steps are called the foundation of the money management by the author (Gibson, 1996).

![Figure 1.2.1 Money management process (Gibson, 1996)](image)

As Gibson (1996) imply, when he call the first two steps of his flow chart the foundation, that this steps are critical for the future success for the private banker to manage his clients wealth. It does not matter how well the rest of the house is built, if the foundation is not properly done it will still fall down.

“*To manage somebody’s financial affairs really well, one has to get to know that person really well…*” (Maude & Molyneux, 1996 page 62)

Campbell and Viceira (2002) note that many financial investors make the assumption that an investor’s wealth consists only of financial assets, leaving other features of an investor out from the analysis (Campbell & Viceira, 2002). This fact contradicts with the framework that Reichenstein (2004) has presented in his theory of the extended portfolio. Is it enough for the private banker to get to know a client by only consider an investors financial asset?
And if not what kind of questions should a private banker ask a future investor in order to get to know him really well?

This thesis will be concentrated on the first step in Gibson’s (1996) flowchart; Gather client data. The area has been chosen since the author of the thesis are aiming to look closer on what features of an investor the Swedish private bankers take in to account and what features they leave out in order to create a suitable investment portfolio. However to be able do this, the authors also has to comment on the asset allocation and the design of the portfolios. This since they are closely related and will be needed in the valuation of the first two steps. The thesis will also present, theoretically, what kind of investor’s features that should be looked upon by a private banker. The authors are aiming to create a thesis that contribute with some description if Swedish private bankers have a too limited perspective of their clients economy, when building portfolios for their clients.

Two questions are used:

*What features do the Swedish private banker look upon when building a portfolio for their customers?*

*Do the used features add up to the holistic view the private banker needs to build a suitable portfolio for the client?*

### 1.3 Purpose

The purpose of the thesis is to describe: if Swedish private bankers look on enough features of an investor to be able to prescribe the appropriate portfolio for the investor.

### 1.4 Delimitations

Since it is impossible for the authors of the thesis to simulate a full human being, in the cases used in the study\(^4\), the authors have made a simplification that all human beings act in a rational way and maximize their utility.

The thesis is aiming at what kind of parameters a Swedish private banker should consider but one parameter has been left out, tax. This implies that the thesis is delimited to a situation without taxation. The tax and other implications of the state are excluded due to the reason that the implication of the state changes over time and rulers. The tax is not created by the financial market, but gives the financial market a framework with implications to work within. If the thesis would include taxation, the Swedish tax code would probably be used. To narrow the conclusion of the thesis to the Swedish tax code is not an aim for the authors since the authors want to make it possible to draw conclusions based on financial theory and not on a single regulation. Applying Swedish tax code will also limit the target group to Swedish readers and this is not done since the authors want non-Swedish readers to be able to draw conclusions from the thesis as well.

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\(^4\) “… the theory that certain wholes are to be regarded as greater than the sum of their parts…” (Concise Oxford Dictionary)

\(^5\) For further information see section 5.1
For the same reason stated above all legal framework regulation and limiting the profession of private banking has been left out.

The study is delimited to include two private bankers, both from organisations with broad businesses.

2 Introduction theory to Finance and Private Banking

This chapter constitutes the theoretical framework on basic knowledge of finance and private banking. This will be needed later in chapter 3 to understand why each feature of a client will tilt a savings portfolio and in which direction.

2.1 Expected rate of return

The return on an investment is measured as the total gain or loss experienced on behalf of its owner over a certain time (Meggison, 1997). To be able to forecast the expected return of one asset the investor need to sum up the probability of every single possible outcome. The probability has a range that goes from zero to one, where zero is impossible and one an absolute fact (Reilly & Brown, 2003). The probability distribution describes the weighted range of possible outcomes. This is used to calculate expected rate of return (Meggison, 1997). For example if one would like to calculate the expected return of one asset (A) and the probability of a disappointing outcome with a return of 13 % is 0,25. A most likely return of 15 % has a probability of 0,5 and the most optimistic return 17 % has a probability of 0,25. The expected return (E) would then be:

E(A)= [(13% * 0.25) + (15 % * 0.5) + (17 % * 0.25)]= 15%

(Meggison, 1997).

Notable is the difficulty of predicting possible outcome. The result of the formula is never wrong, however the result will never be better then the data used. Low quality in the data, the predictions of outcomes, would result in a low quality answer (Gujarati, 2003).

When calculating the return of the portfolio the expected rate of return of the portfolio’s all expected rate of return of single investments is the weighted to their quantity of investment (Reilly & Brown, 2003).

2.2 Risk

In finance a broad definition of risk is “The chance of financial loss.” (Meggison, 1997 p. 93).

Risk occurs whenever the outcome is uncertain, when an investor does not know how much return they will have at the end of the year or the difference from a projected outcome. This is line with how Strong (2000) refer to risk, that risk is the spread of the outcome from its expected value. Strong’s perception of risk differs from Megginson’s in the way that every unpredicted outcome is a risk, even if the change in value would be positive. This is a definition of risk that is more in line with investment theory, that both look on the up- and downside. According to Moyer, Megugian and Kretlow (2001) risk is defined as the possibility that actual future returns will deviate from expected returns (Moyer, Megugian & Kretlow, 2001 p173). Risk is described as the variability of returns and not only as the chance of a loss. This definition conclude that if the return from an investment is 100 % certain, it is said to
be risk free (Moyer, Mcgugian & Kretlow 2001; Meggionson, 1997). Risk is measured with variance and standard deviation. The two measures quantitative risk as dispersion of returns around the expected value. The larger variance and standard deviation or risk of an asset the larger is the dispersion of returns (Strong, 2000). Standard deviation is the statistical approach to measure the variability of returns on a single investment and gives a indication of how risky the investment is. The standard deviation or risk should be compared with other similar investment options for an efficient risk comparison (Moyer et al, 2001).

The problem with risk for private bankers is that clients often misperceive it. If the misperception does not change then investors may end up with an unfeasible investment solution. Usual investors has the perception that risk means chance of loss, while private bankers think of the definition standard deviation from expected return, which does not mean that the investment has to incur a financial loss. When private bankers consult their clients how much risk their investment strategy should include, clients often include too little risk in their investments since standard deviation of return could also be positive for the return (Gibson, 1996).

2.3 Risk aversion and Utility

Three different assumptions can be made about investor’s preference concerning risk: Risk aversion, risk neutral and risk seeking. A risk averse investor will reject a fair game, where the expected value of the gamble is equal to the cost. The risk neutral investor is indifferent to whether or not a fair gamble is undertaken while the risk seeking investor would chose to play a fair game (Elton & Gruber, 1995). Today’s financial theory assumes that people are risk averse. That implies, from two assets with the same return the investors will always select the asset with the lowest risk. To accept a higher risk the investor will demand a higher return (Reilly & Brown, 2003). Risk aversion does not depend on wealth, this since interest rates and risk premium do not show any evidence of long-term trends in response to the long-term growth in per capita wealth (Campbell & Viceira, 2002). But all investors are not risk averse, there is still investors playing in casinos knowing that the expected return is negative. The basic assumption is however that most investors investing for the future is risk averse (Reilly & Brown, 2003). To explain how people can play on casinos Friedman and Savage (1948) suggested that; the same person can have one risk function for some level of wealth and a different function for another level of wealth (Friedman & Savage, 1948).

According to Amenc & Sourd, (2003) utility can be explained by that investors always prefer having more to having less and investors is always seeking to maximize their wealth. At the same time an investor can also be assumed to prefer a higher probability of receiving a target sum to a lower (Sharpe, 2000). Campbell and Viceira (2002) describe utility as wealth at the end of the period and investors derive utility from consumption. When Markowitz refer to utility he indicate ”…that the investor does (or should) maximize discounted expected, or anticipated, returns.” (Markowitz, 1952 page 77). Bodie, Merton and Samuelson would like to describe the phenomena as “The individual’s objective is to maximize his discounted lifetime expected utility…” (Bodie, Merton & Samuelson 1992, page 4). The theory about utility is needed since the expectation of maximizing utility is the basis for all rational decision making under uncertainty ( Michaund, 1998). Utility is different for every investor and should not be compared with each other. The utility function enables the investor’s choice to be characterized and the investor’s preferences to be defined (Amenc & Sourd, 2003). With the utility function defined, the function is a way to separate between conservative and aggressive investors and chose an optimal portfolio for the investor (Campbell & Viceira, 2002). The use of
utility functions in defining suitable portfolios for investors often divides practitioners from academics. This since even a small error in the defined utility function can lead to large changes in the invested portfolio (Michaund, 1998).

In figure 2.3.1 above U (W, +1) is a standard utility function. The concave shape of the function implies that the investor is averse to risk. The degree of curvature of the function describes the magnitude of the investor’s risk aversion. The initial wealth for an investor is W. The investor is offered a fair game involving risk. The gamble will either add or subtract G (game) to the investor’s initial wealth. The game could be seen as investing in a risky asset that either will result in an increase or decrease in total wealth. If the both outcomes of increasing or decreasing have equal probabilities, the expected utility of the gamble is (1/2) (W + G) + (1/2) (W - G), which is less utility that the initial wealth of U (W) could provide. The risk averse investor does not gamble since the gamble does not offer accompanying reward. The investor instead would be risk neutral his utility function would follow the straight line, and the investor utility function would be indifferent to a game or not (Campbell & Viceira, 2002).

2.4 Risk Profile

A person’s risk profile is built by two parts: risk tolerance and risk capacity (Kitces, 2006).

All individuals already have a natural threshold for risk, the risk capacity, determined by factors as job and life situation (Hood, 2005). Risk capacity is a measure of the financial ability of the client to uphold risk. In practice risk capacity is measured in terms of the client’s asset base, withdrawal, time horizon and needs for cash. The basic question of the risk capacity is about: how long or how severely clients could afford to miss their targeted goal and still be able to fund all future negative cash flows (Kitces, 2006).

Risk tolerance is a measure of the client’s ability to handle risk emotionally. Risk tolerance evaluates the client’s willingness to take on the risk needed for the possibility to higher gains. Risk tolerance has nothing to do with the investors wealth, risk tolerance are all about attitude towards the trade-off between risk and return (Kitces, 2006). Reilly and Brown mean that risk tolerance is a complex function depending on: an individual’s psy-
psychological makeup, current insurance, family situation, age and wealth (Reilly & Brown, 2003).

Two individuals with different wealth, everything else equal, have different risk profile since the wealthier person have more wealth to cover any investments shortfalls (Reilly & Brown, 2003).

A private banker needs to determine a client’s risk profile before recommending investments (Kitces, 2006), a hard part with doing this is that there exist no definitive instrument for measuring risk tolerance (Gilliam, 2004). One way it can be determined is by questionnaires or by discussing with the client in terms of worst case scenarios as possible maximum declines in a portfolio. How large losses in dollar are the client willing to put up to? (Kitces, 2006). This since

“The emotion involved when you actually incur losses is different. Your tolerance for loss is usually lower than what you thought you could take when you made the investment.”(Chennai, 2006 page 1)

If the client gets emotionally disappointed when losses incur he might blame the private banker for the loss, which would result in costumer dissatisfaction and loss of clients. So when constructing a portfolio for clients it is crucial for private bankers to determine the clients risk profile to avoid severe customer dissatisfaction in case of a loss (Kitces, 2006).

Even if some clients are risk takers there are always limits, often investors believe they have an appetite for risk but they really want to invest safe (Wine, 2006). If an investor is not prepared to tolerate bad periods, the private banker should stick to a low risk portfolio (Hood, 2005).

When judging a clients risk profile a private banker should differentiate between risk tolerance and risk capacity. This since the two parts, of a persons risk profile, some times contradict each other. In the example down below the clients large risk capacity (large wealth) point to risky investments while his risk tolerance points to low risk investments (Kitces, 2006).

“John Smith is an extremely conservative investor. All his life, he has been unwilling to take on substantial financial risks. He would prefer to receive moderate ”sure thing” returns than to pursue higher returns at the risk of underperforming, and he has never been able to tolerate any degree of market decline. However, due to strong saving habits and a sizable inheritance from his family, John has a portfolio of $800,000 at the age of 45.” (Kitces, 2006 page 1)

It is a crucial point that the investors understand the risk tolerance since this is the key to understanding what the investment performance is linked to (Duran, 2001). Tests for risk tolerance is often reserved for high-net-worth investors, this due to the fact that it is not cost effective enough to take the time to figure out risk tolerance for smaller investors and this is a problem (Gilliam, 2004).

### 2.5 Correlation and covariance

In portfolio theory correlation show the strength and direction of a linear relationship between two assets. A term for describing correlation is the correlation coefficient. The correlation coefficient has a maximum value of +1 and a minimum value of -1. When assets have a +1 correlation, also called perfect positive correlation, it means they will move in perfect relation to each other. Perfect negative relation, which is -1 means they will move in perfect opposite way of each other (Smith & Smith 2004). As we can see in figure 2.5.1 As-
sets A and B has a perfect negative correlation. When A decrease B increase in the exactly same amount. They have the same turning point and increase and decrease with the same slope.

![Figure 2.5.1 Correlation (Gibson, 1996)]

Covariance is another measure of how assets move together. Different from correlation covariance shows the extent of how much the assets move together. Covariance is the product of the two variances of the assets. A large positive covariance means that the variance of the two assets moved in the same directions and a negative number means that they move in different directions in a given time. The two measurements, correlation and covariance, are not significant different from each other; correlation is derived from covariance (Elton & Gruber, 1995).

2.6 Efficient frontier

The portfolios with the highest value for the investor are found along the efficient frontier. This could be stated since the plot, of the efficient frontier, describes the combination of investments in a portfolio that has the maximum rate of return for every level of risk or the minimum risk for every rate of return. In other words, the efficient frontier is the best combination of investments the portfolio has to offer for each investor no matter preferences to risk or return. All risk averse investors will aim at a point on the efficient frontier, but the specific point will be different for every investor. This since all investors has different, risk tolerance, attitudes towards trade-offs between risk and expected return. The steadily decreasing slope of the efficient frontier, as the return and risk increase, is explained by diminishing increments of expected return (Reilly & Brown, 2003).

The theory of the efficient frontier connects well with the task of the private banker. As stated in point 2.6 all investors want to own a portfolio placed on the efficient frontier, but at the same time each investor want a portfolio placed in different positions on the efficient frontier. To place an investor’s portfolio not only on the efficient frontier but also in the right position is the task for the private banker. Neither of these tasks is easy. To be able to place the investor’s portfolio on the efficient frontier the private banker has to posses’ skills within asset management and to be able to place the investor’s portfolio in the right position the private banker has to know the investor really well (Maude & Molyneux, 1996).
In the figure 2.6.1 three portfolios (a, b and c) is plotted out on the efficient frontier. They are all located on the frontier but bear different risk and return. Portfolio a. is invested in a conservative way with low risk and return. Portfolio b. bear more risk and more return while portfolio c. bear a lot of risk and have a high expected return.

2.7 Asset Classes

Asset classes are groups of securities that have similar qualities, attributes and relationship for risk and return (Reilly & Brown, 2003). Traditionally three asset classes are considered: cash equivalents, bonds and common stocks. Each asset class will have its own pattern of return since they are affected differently by changing economic events (Gibson, 1996). Other asset classes as: real estate and commodities do also exist but will not be covered in this thesis.

2.7.1 Cash

Cash is money invested in deposits, as in a bank. The investment is mostly of short-term nature, maturing less then a year. The return on the investment is the interest that is offered by the holder (Elton & Gruber, 1995). One kind of cash investments is short-term obligations as Treasury bills (Reilly & Brown, 2003)

2.7.2 Bonds

A bond is a loan issued by companies or by governments, broken into small parts. The asset has often an annual or semi-annual payment of interest, which is called a coupon. At maturity the initial price of the asset is paid back. The cash flow is most of the times predetermined. This feature of the asset is called fixed income, since the Cash flow is fixed. The risk of the asset is the risk of not obtaining the cash flow and can be divided into two parts: credit risk and interest risk (Amenc & Le Sourd, 2003).

Credit risk is the risk that the issuer of the bond is not able to fulfil the agreement. The market keep track of the credit risk of bonds and there exist several credit ratings of bonds both issued by governments and firms to measure their credit risk (Amenc & Le Sourd, 2003).

Interest risk is the risk that the interest in the market differs from the interest set in the bond agreement. This creates an opportunity cost for the investor. He or she could have invested the capital in a higher interest-bearing instrument, assuming they have the same risk (Amenc & Le Sourd, 2003).
2.7.3 Stocks

When investing in stocks, the investor is investing in a company and become a part owner of the company. The return on stocks could both be from dividends that the company handout or a gain from selling stocks to a increased price (Elton & Gruber, 1995).

2.7.4 Historical data of risk and return

“…in the long run, the highest compounded returns will most likely accrue to those investors with larger exposures to risky asset” (Reilly & Brown, 2003 page 35)

To find out if the investors with larger risk will be rewarded with high returns, historical data over annual returns and return variability for the time period 1926-2001 is presented in figure 2.81.

Figure 2.8.1 Historical average annual returns and return variability, 1926-2001 (Reilly & Brown, 2003)

Figure 2.8.1 support Reilly and Brown’s statement that the asset class with larger risk will also generate higher returns (Reilly & Brown, 2003). Stocks are the assets that have the highest risk and consequently also the highest return (Elton & Gruber, 1995). As Amenc and Le Sourd (2003) note, bonds are the medium player with less risk than stocks but also less return and riskier than cash but creates a higher return (Amenc & Le Sourd, 2003). The asset class with the lowest risk is cash\textsuperscript{6} but also the return is the lowest (Reilly & Brown, 2003).

What the figure 2.8.1 does not show though is that safe Treasury bills will from time to time outperform stocks, this since stocks sometimes lose considerable value (Reilly & Brown, 2003)

2.7.5 Mutual Funds

Instead of investing in an individual security an investor could invest in a pool of securities. A mutual fund pools money from shareholders and is managed by an investment company. The fund can include a mixture of all securities although the mutual fund has a preset ob-

\textsuperscript{6} In figure 2.8.1 displayed as U.S. Treasury bills
jective that it is suppose to be followed. These objectives or investment strategy can be all bond, stock, cash, a mixture of all, or to follow a certain style or industry. Another type of mutual funds are the index fund, which is build to replicate the returns of a certain market index, such as Standard and Poor’s 500\(^7\) index. These Index funds are attractive for passive investors who believe in market efficiency and who is not out to beat the market, rather gain equal return as that market (Reilly and Brown, 2003). Mutual funds are effective since they provide diversification to a portfolio in a simple way (Gibson, 1996). This feature of the mutual fund has made it popular in recent years (Reilly and Brown, 2003). The trend is also notable in Sweden. The investment in mutual funds is increasing and most popular is the equity based funds. It seems that the investors has become more aware of risk and therefore use mutual funds to diversify (Ryderstedt, 2003).

### 2.7.6 Hedge funds

A hedge fund is actually not an asset, rather an investment strategy. It comes from investing in many different securities by using long and short positions at the same time, trying to find arbitrage situations in the market. It is produced to create positive returns regardless of the stock and bond markets returns (Vanguard, 2005). To include hedge funds can help a portfolio to be more efficient, larger yields with same risk or reduced risk with same yield. This is possible since hedge funds is exposed to different risk factors and have in general low correlation with standard asset classes (Amenc & Martellini, 2001). Hedge fund also has a downside, it has been shown that hedge funds on average not deliver the return and diversification, as promised (Vanguard, 2005).

### 2.7.7 Life cycle funds

When investors have a long term goal with their savings, as for example retirement, funds as life cycle funds might be practical. It offers a blend of asset allocation adjusted for time horizon. Depending on the management of the fund it could have a variety of different allocations or exposed to different amount of risk, but most life cycle fund has the structure that offers a simple solution and a proper asset allocation for retirement. The advantage of the funds is that they shift allocation towards a more conservative allocation as closer an investor get to retirement (Morningstar, 2006).

### 2.8 Diversification

“Don’t put all your eggs in the same basket” is a phrase that is often used in portfolio theory. The basic meaning is that you should spread your risk. If the eggs are spread in several baskets, you still have plenty left to sell at the fair, even if you dropped one basket. When it comes to assets, it is the same fundamental thought. By investing in only one asset or one type of industry, you might experience heavy losses if your specific industry or asset lose value. However with diversification Markowitz illustrated that if an investor adds assets that are not perfectly correlated to an investment portfolio the total risk of that portfolio, same as total variance of return, would decrease. By diversification one could decrease the risk of the portfolio without sacrificing return (Meggison, 1997).

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\(^7\) A index that include a sample of 500 leading companies in the United States of America. It is regarded as one of the best single measurement of the United States of Americas equity market (Standard & Poor. 2006).
The goal for the investor is to create, a minimum variance portfolio for a given level of return, a well-diversified portfolio. At that point the risk of the portfolio will equal the risk of the market portfolio that is a portfolio that consists of all risky assets (Reilly & Brown, 2003). However not all type of risks can be diversified away. The risk of one portfolio is divided between diversified risk and non-diversified risk (Megginson, 1997). Reily and Brown (2003) call these for Systematic risk and Unsystematic risk, where unsystematic is the risk which could be minimized by diversifying (Reily and Brown 2003). The systematic risk, or non-diversifiable risk, is the risk of macroeconomics and other market forces that affects all firms and financial assets and could therefore not be diversified (Megginson. 1997). That is the risk that an individual has to accept as an investor. Figure 2.8.1 show this graphically. By using standard deviation of portfolio return as risk on the Y-axis and number of assets on the X-axis the reader can see how the total risk of the portfolio decrease when adding assets to the portfolio. However as the portfolio risk approaches the market risk, the marginal benefits of diversification declines. The portfolio has diversified away the diversifiable risk but is unable to diversify away the risk of the market (Megginson, 1997).

![Figure 2.8.1 Diversifiable risk (Megginson, 1997)](image)

Research has shown that 15-20 randomly picked assets would generate the benefits of a well diversified portfolio (Megginson, 1997). The assets have to be picked from several different asset classes such as stocks and bonds, within asset classes and also between different industries and geographical regions (Reily & Brown, 2003).

### 2.9 Asset allocation management

"Open the hood of a car today, and it’s next to impossible to find the dipstick. Considering this complexity […]. The same goes for asset allocation. It’s a fairly complex subject with lots of moving parts—and it requires an experienced technician to get it right." (Lutschaunig, 2005 page 1)

The process of deciding how the investment should be divided between different asset classes is called asset allocation management (Reilly & Brown, 2003). The goal of the asset allocation is to create a mix of assets that generate and enhance wealth within specified limits of risk (Lutschaunig 2005). The allocation should include what kind of securities to include in the portfolio and in which proportions. The proportions are often not expressed
in strict measures, rather ranges. The range makes it possible for the portfolio manager to invest in the ranges based on his judgment of the current market (Reilly & Brown, 2003). Gibson (1996) divide the designing of an investment portfolio in four steps: 1. Deciding which asset classes that should be represented, 2. determining the long term target, 3. specifying a range for each asset class and 4. to select securities for each asset class (Gibson, 1996). Asset management is the main task for a private banker (Michaund, 1998).

In the long run the asset allocation decision will be the primary determinants of a portfolio’s risk and return (Gibson, 1996). Ibbotson and Kaplan (2000) found out “…that asset allocation explains about 90 percent of the variability of a funds return over time…” (Ibbotson & Kaplan, 2000 page 32). Brinson, Hood and Beebower (1986) delivered the same suggestion after studying the return of 91 pension plans during the period 1974-1983. The study shows that asset allocation is the major factor of return while market timing and security selection is playing a small role (Brinson, Hood & Beebower 1986). The study was updated in 1991 and arrived to almost the same conclusion that 91.5% of the performance of a portfolio is due to asset allocation (Brinson, Singer & Beebower 1991). If about 90% of the return on a portfolio can be explained by the asset allocation, this implies that the allocation is a critical decision. In other words, good management will add value to the portfolio but the return from the investment is by largest part of influenced by the asset allocation (Reilly & Brown, 2003).

Different methods can be used to figure out a suitable asset allocation for a client. Modern financial theory suggests that, in an efficient market, an investor of average risk tolerance should hold a portfolio reflecting the world’s wealth. For example an average investor’s portfolio in December 31 1994 should have had an asset allocation like figure 2.11.1 displays. The investor does continually have to do reweigh the portfolio so it in every time reflects the world’s wealth (Gibson, 1996).

In reality clients have different needs and the risk and return of their portfolio will vary considerably. But the framework of world wealth can be used as a starting point for all investors. From the starting point the private banker are able to use his knowledge about the investor, to remodel and tilt the portfolio in either way to a suitting portfolio for the investor (Gibson, 1996).

Zimmermann, Drobetz and Oertmann (2003) note the same but use market portfolio to describe world wealth.
"If investors would fully agree on estimated returns, volatilities, and correlations of the relevant asset classes, they would passively hold the market portfolio. But most investors have individual views and opinions about markets and sectors, and thus over- and underweight selected asset categories relative to the market” (Zimmermann, Drobetz & Oertmann, 2003 p.5)
3 Getting to know your client, the two dimensions

The goal of the data collection for the private banker is to know and to understand the client. The relationship between a client and adviser starts with a data gathering session, with the purpose of getting to know the client (Gibson, 1996).

Since as noted earlier in section (1.2)

“To manage somebody’s financial affairs really well, one has to get to know that person really well…” 
(Maude & Molyneux, 1996 page 62)

This chapter is divided in two broad parts: (3.1) Classical portfolio theory and (3.2) Extended portfolio theory. To draw a line between classical and extended portfolio theory is a hard task since extended portfolio provide no new basic theory rather a framework to value new features of the investor and extend the analysis to the total financial situation of the investor (Reichenstein, 2004).

3.1 Classical Portfolio theory

To select a suitable portfolio for an investor the private banker has to know the client as this thesis earlier has pointed out in chapter (1.2). As discussed in section 3 it is hard to give an exact definition of what classical portfolio theory are (Reichenstein, 2004). But two examples of classic portfolio theories are provided by Gibson (1996) and Kahneman and Tversky (1979). Kahneman and Tversky (1979) constructed a model for portfolio selection that laid heavily weight on knowledge of the relative wealth of the investor. Kahneman and Tversky (1979) argue that the private banker is able to prescribe the right portfolio for an investor as long as the private banker have knowledge about the investors relative wealth (Kahneman & Tversky, 1979). Gibson (1996) do not fully approve Kahneman and Tversky (1979) theory and adds more factors that the private banker should analyze as: income, expenditures, tax situation, family composition, the client’s hopes and dreams, opinions and preferences regarding investment and tolerance for risk to be able to prescribe a portfolio (Gibson, 1996).

3.1.1 Time Horizon

The time horizon of the investment is the crucial variable that determine on how to allocate investment between interest-generating investments or equity investments. The time horizon of the investment is determined from the goal of the investment. The risk for inflation and volatility of returns are the two key drivers of the investment horizon. In the long run inflation is a larger risk than volatility in the market. Therefore, to secure long-term growth, should a portfolio with a long horizon be tilted towards equity investments. In the short run volatility is more dangerous than inflation and the portfolio should be tilted towards interest-generating investments (Gibson, 1996).

There exists a broad consensus of how to allocate investment assets in the aspect of time horizon. This consensus can be seen in the agreement among the asset allocation in different life cycle funds (Reichenstein, 2004).
To illustrate his statement, that there exists a broad consensus of how to allocate investment assets in the aspect of time horizon, Reichenstein (2004) shows the asset allocation in life cycle funds. The authors felt that Richensteins example was not optimal and therefore a similar figure but with different funds was created in figure 3.1.1. Figure 3.1.1 displays the asset allocation of six different life cycle funds from three different companies, where all data has been retrieved from Morningstar. The first three funds, from the left, are all constructed for investors that retire around 2010. SPP Generation 50-tal is constructed from people born in the 1950’s, Länsförsäkringar Pension 2010 is constructed for people that retires around 2010 and finally Carlson Lärarfond 45-58 år is constructed for teachers in the age of 45-58. The last three funds are designed for investors retiring around 2020 and follow the same symmetry as the first three (Morningstar, 2006). As figure 3.1.1 display the asset allocation in life cycle funds show a clear consensus of how to allocate investment assets in the aspect of time horizon. This since the first block of three funds, aiming at retirement in 2010, are almost identical allocated and the second block with last three funds, aiming at retirement in 2020, are also almost identical allocated. In the same time there exist a consensus in how to allocate funds in time figure 3.1.1 also display the difference in allocation between funds for investors retiring in 2010 and investors retiring in 2020.

3.1.2 Liquidity

Ultimately all investments are meant to support the clients need for cash. Does the client need cash to support children for instance? This leads to that the timing and magnitude for cash withdrawals has to be planned. If it is likely that the client need cash from the portfolio earlier than planned, the assets should not be placed in illiquid investments, for instance direct ownership of real estate. Even if other parts of the portfolio than the illiquid investment can support a cash withdraw, the withdraw will inevitably tilt the portfolio since it is hard to rebalance a portfolio containing illiquid assets. If the client is forced to sell a high risk/high yield asset to support an early cash withdraw the client will end up with a portfolio with less risk than before. To rebalance the portfolio may be impossible or expensive if parts of the portfolio are located in illiquid assets. The client will now own a portfolio with less risk but lower return. Lower risk is good but the lower return is jeopardizing also the client’s chances to reach the goal with the investment (Gibson, 1996).
3.1.3 Income

Young investors possess tradable financial assets as part of their wealth but they hold assets that are nontradable as well. Young investors have years of safe income in head of them while older investors may have to finance their consumption from accumulated wealth. The expected value of future labour can be looked upon as a dividend of future salaries and bonuses. Campbell & Viceira (2002) assume that labour asset is a risk free asset, this lead to an adjustment of the portfolio. The adjustment should tilt the portfolio toward stocks relative to an investor who owns only tradable assets (Campbell & Viceira, 2002). The exact words of Capbell and Viceira (2002) is:

“A young, employed investor should invest more in stocks than a retired investor with identical risk aversion and financial wealth.” (Campbell & Viceira, 2002 page 164)

If it exist a positive correlation between the labour income and financial assets held by an investor the portfolio should decrease the tilt toward risky financial assets. The allocation of assets could compensate this by tilting the portfolio away from that kind of investments (Campbell & Viceira, 2002). This means that if a investor work for a biochemistry firm his or her labour income is of course dependent of the financial result of that firm and should avoid financial investments correlated to those kind of securities. As quoted in theory “…for an investor whose labour income is highly correlated with the fortunes of the company he works for. Such an investor should not only avoid holding an undiversified position in his employers stock, but should actually underweight the company stock relative to an index fund” (Campbell & Viceira, 2002 page 165)

3.2 Extended Portfolio theory

When given the task to create a client’s asset mix the private banker consider often only the financial portfolio. But since revenue from other sources will help to meet the consumption needs as well it is logical to consider all revenue-producing assets. The extended portfolio theory is a framework of taking not only the financial portfolio but other assets as well in account. Financial planners should manage their investors extended portfolios since the extended portfolio provide a better picture of the health of the investors economy (Reichenstein, 2004). The same is noted by Hood (2005) that wrote; The whole vista should be considered and the financial portfolio is just a part of it (Hood, 2005). The basic notion from the theory about the extended portfolio is that: if the income from other assets is fixed and certain they could be looked upon as a bond, with the implication of tilting the portfolio towards stocks. If the income from other assets will be volatile and vary closely with stocks then the allocation of stocks should be reduced (Reichenstein, 2004).

3.2.1 Income

Questions could be raised if labour income could be classified as a risk free asset. For most investors labour earnings are uncertain, making the dividend of future labour more uncertain than a safe non-tradable asset. Therefore the risk characteristic of labour income should affect the portfolio choice. Two aspects should be looked upon, the variance of labour income and the correlation of labour income with the return on the financial assets. Investors with larger variances of their income should decrease the tilt toward risky financial assets since their labour income are risky in its self. In the extreme the labour income become a risky asset and the portfolio choice should be tilted towards a portfolio with safer assets. This has been known for a long time but empirical work has lagged far behind. This
could be one of the reasons why the concept has not been understood by the investors (Campbell & Viceira, 2002).

The present value of future income is called human capital by Bodie, Merton and Samuelson (1992). To valuate labour income the characteristics, as risk, of the future income must be determined. The asset allocation should be different due to different risk characteristics of the human capital. The riskier an investor’s future labour income is the more conservative should the investor’s financial investment be (Bodie, Merton & Samuelson, 1992).

In other words, investors should aim to balance out the human capital. Even if the impact of human capital on investors’ portfolio choices has been studied by many researchers, the concept has not started to bee used by private bankers (Chen, 2006)

3.2.2 Wealth

If more funds are available than the investor will use to support his lifestyle the choice of portfolio should reflect this. After the clients death the wealth will be given to relatives or donated. In this case the investment horizon for part of the funds will exceed the investor and take shape of the investment horizon of the relatives or the donation. More wealth means more risk capacity both since there is a positive relationship between wealth and risk capacity but also for a longer investment horizon (Reichenstein, 2004).

3.2.3 Labour supply Flexibility

Flexible labour is “…those that offer opportunities for working extra hours, taking extra jobs, or delaying retirement.” (Bodie, Merton & Samuelson, 1992 page 30)

A flexible supply of labour smoothes the intertemporal consumption flow, by creating an insurance against poor investments outcomes (Clemens 2004). Clemens (2004) statement is in line with how Bodie, Merton and Samuelson (1992) would like to explain the advantage of labour flexibility “…labour supply flexibility creates a kind of insurance against adverse investment outcomes.” (Bodie, Merton & Samuelson, 1992 page 2).

An individual’s ability to vary supply of labour gives the individual opportunity to assume greater risk in his investment portfolio. This is the reason why young investors with more opportunity to vary labour supply may take larger investments risks than the old with less labour flexibility (Bodie, Merton & Samuelson, 1992). Cambell and Viceira (2002) make the same point and mean that flexibility in labour income makes the investor more tolerant to risky assets. If the investments do poorly an investor with flexible labour income can offset this by adjust not only consumption but also income by working more (Campbell & Viceira, 2002). Bodie (2001) means that it makes sense to incorporate the effect of flexibility of labour supply in the calculation of optimal portfolio mix since the effect can be large. If the investor is willing to postpone retirement this will also postpone the investment horizon. The longer the investment horizon the higher is the fraction of the portfolio that should be invested in risky assets as stocks (Bodie, 2001).

The theory of labour flexibility accords well with the conventional and well-accepted wisdom that more conservative investments should be done near the retirement. The authors mean that an investor’s assets demand depend on his total wealth, both financial wealth and human capital. The ability to be flexible in human capital plays an important role in a household’s asset allocation (Bodie, Merton & Samuelson, 1992).
3.2.4 Leveraged portfolios as portfolios with mortgage

A typical individual’s portfolio has the highest leverage in the early years. The major assets owned by the young individuals are real estate, for residential purposes, which are to the largest part financed by mortgage loans (Bodie, Merton & Samuelson, 1992).

Larger sizes of mortgages in an extended portfolio should affect the asset allocation in the financial portfolio. Mortgages and bonds are intimate connected since; a bond is a loan broken up into small pieces with positive cash flow for the holder and a mortgage is a loan broken up into small pieces with a negative cash flow for the holder. Mortgages and bonds will offset each other since as described earlier mortgages and bonds are of the same nature but with opposite cash flows. The implication of a large mortgage would be to tilt the financial portfolio towards larger investments in bonds. By not tilting the portfolio towards bonds the investor will be invested in a portfolio that carries too little bonds and bear a too high risk. The statement focuses on the risk of the portfolio and do not consider any implications of the interest spread between bonds and mortgage (Reichenstein, 2004).

3.2.5 Defined benefit plans and Pension plans

Annuities payments provide a natural hedge against risk and give the opportunity to the investor to tilt his portfolio towards more risk. No matter from where the payment is coming, if there exist an annuity payment the portfolio should be adjusted (Reichenstein, 2003).

Some investors will receive income from defined benefit plans as a company pension plan. The value of the income from a pension plan could be looked like the investor is holding a large bond (Reichenstein, 2004).

The existence of a social security system should also be seen as a bond since the system is guaranteed annuity payment. Campbell and Viceira see the social system as a non-tradable risk less asset. With assets with low volatility in the portfolio the portfolio should be tilted towards more risky assets (Campbell & Viceira, 2002). Bodie claim that the social security retirement benefits are a form of inflation-protected life annuities. But Bodie also notes that the benefits from Social Security may fall short of a person’s minimum desired level of retirement income. In any case an inflation-protected life annuity should change the asset allocation of the portfolio (Bodie, 2001).

3.2.6 Personal residence

The extended portfolio does not include the personal residence since it does not produce cash flows to finance consumption needs. But when a family plans to downgrade from a larger to a smaller home, then the freed funds become a part of the extended portfolio and should be planned for (Reichenstein, 2004).

3.2.7 “Unique Situations”

There exist an infinite number of unique situations. In this section the authors try to display some of them and show how the situations will imply on the asset allocation of an investors portfolio.

An investor has won a lottery that gives him right to a fixed amount every month in a fixed period of time. This is not considered as a traditional financial asset. The income from the lottery will however affect the investor’s lifestyle and should also affect the financial portfo-
The income from the lottery is an annuity payment and should be looked like the investor is holding a large bond, since its lack of volatility, with the consequence that the investment should be tilted toward stocks (Reichenstein, 2004).

An investor owns a source of natural commodities. The annual income varies with the world price of the commodity. There exist an expected remaining life of the source but the life time could be much longer or shorter. In all, the future cash flow from the asset is highly uncertain. The income from the natural commodity is likely weakly correlated with both stocks and bonds. Since the cash flow from the commodity is highly uncertain the investor should decrease the risk of the portfolio by reducing the allocation in stocks (Reichenstein, 2004).

Income generating real estate that the investor owns will produce an income throughout its lifetime. Depending on in how volatile market the real estate is located and the type of leasing contracts the income from the real estate will be more or less fixed. If the income from the real estate is highly stable the assets inherited from the real estate should be classified as a bond while highly volatile income should be treated as a stock (Reichenstein, 2004).

Investors owning a business should be treated in the same context as investors owning income producing real estate. Depending on the volatility of the business the income should be treated as either stocks or bonds (Reichenstein, 2004). Campbell and Viceira (2002) see private business as a risky asset since they are often have a correlated risk with public traded companies. Therefore it is recommended to tilt the portfolio towards less volatile assets as bonds (Campbell and Viceira, 2002).
4 Method

This chapter the reader will be guided through the choice of subject and method by the authors. A description will be presented of how the material, used to gather empirical information, was created and also how the empirical research was conducted. The chapter ends with criticism regarding the authors choose of method.

4.1 Chose of subject

Both authors studied the same course in finance during their exchange semester at Baylor University, Texas, USA. The professor of the course stated that American private bankers often make the mistake to not include all the features of the investors, which also is stated in extended portfolio theory, when building their customers portfolio. The authors found that statements and theory like this was interesting and since the authors could imagine them self working within private banking, this subject was chosen.

4.2 Type of study

In this chapter the authors is guiding the readers through the chose of type of study that was conducted in order to retrieve empirical information and fulfill the purpose of the thesis. In order to make it easier for the reader the purpose of the thesis found in section (1.3) is stated below.

*The purpose of the thesis is to describe: if Swedish private bankers look on enough features of an investor to be able to prescribe the appropriate portfolio for the investor?*

4.2.1 Research approach

There exist three different levels of methodological approaches within the framework of stairs of knowledge. Jarlbo (2000) define these levels at the: explorative approach, descriptive approach and explanatory approach (Jarlbro, 2000).

- Explorative approach should be used when you know almost nothing about the phenomenon and seek answers on the question: What is the phenomenon? If the researcher fit there research within the explorative approach an qualitative method should be used (Jarlbro, 2000).
- Descriptive approach is suitable to use if the authors know a lot about the phenomenon and want to know its existence, location and frequency. For the descriptive approach a quantitative method is recommended (Jarlbro, 2000).
- Explanatory approach is suitable to use if the authors know the phenomenon and its existence but want to investigate why it exists and what implications it have. For a paper aiming of this a quantitative method is recommended (Jarlbro, 2000).

When looking at the research approaches an explorative approach seems to fit the authors’ purpose and stair of knowledge. This since the authors know a great deal about the theory of private banking and the theory behind extended portfolio theory but how the phenomena was used and implicated by Swedish private bankers the authors did not have minor knowledge about. A few studies about American private bankers lacking use of extended
portfolio theory has been read but the authors agreed that to generalize over Swedish private banker by American studies was a too far fetch.

The first look of methodology suggested a qualitative method since the explorative approach fitted the purpose and the author's aim of the thesis. In next section the authors will discuss the qualitative and quantitative method and implications over the purposes for the author's choice of method will be pointed out.

4.2.2 Qualitative versus quantitative research

There are two different research methods that are mainly used when gathering data and information, qualitative and quantitative research. Quantitative method use statistical research to describe and prove relationship between different variables (Morse & Richard, 2002). Qualitative research use for example observations to conclude expressive data (Taylor & Bogdan, 1994).

Bell (2000) argues that the key question the authors should ask themselves is; what information is needed to be known and why that information is of importance, rather than what method of the research should be used to gather information. Another view is offered by Trost (1997) that argue that the purpose of the thesis should determine the type of methods used (Trost, 1997). Rist (1997) argue that qualitative research is a method to obtain a deeper understanding of the empirical subject and differ from quantitative methods since the later only is selected data collecting methods and can not create the deep understanding as qualitative research. De Vaus (2002) is criticising the qualitative method for lacking the ability to generalize and depend too much on subjective interpretations (De Vaus, 2002). Further argues Rist (1997) that qualitative research obtains understanding of the phenomena that could be used for further investigations that might produce generalizations of the conclusion. Another advantage with the qualitative method is that the researcher could be flexible. This is due to the ability for the researcher to look at the different perspectives at the same time and not be locked to variables used in the research, as quantitative research often is.

Morse and Richards (2002) state that quantitative methods is aiming to prove to what extent a theory is correct by hypotheses and statistical research while qualitative research is better aimed for research where the purpose is to interpret and create deeper understanding for a problem. Morse and Richards (2002) argue that it exist two reasons to use a qualitative research, when the purpose demands it and when the information gathering demands it (Morse & Richards, 2002).

The information of interest for the author was: what features do the Swedish private bankers look upon when building a portfolio for their clients and if this features ad up to a holistic view. Bell's (2000) statement that the information needed should guide the authors of what kind of method to use combined with Rist (1997) statement that qualitative is a method used to obtain a deeper understanding directed the authors to the choice of a qualitative method. This since the author's question of interest, earlier stated, carries signs of aiming to retrieve a deeper understanding.

The argument from Trost (1997) that the purpose of the thesis should determine the method of the thesis combined with De Vaus (2002) criticism of the qualitative method for lacking the ability to generalize gave the authors some problem. This since the purpose of the thesis can be understood as an aim of generalisation. Morse and Richards (2002) argue however that it exist two reasons to use a qualitative research, when the purpose demands
it and when the information gathering demands it (Morse & Richards, 2002). As stated above the author’s question of interest required a qualitative method. The authors accepted a qualitative method and to meet Trost (1997) argument, the purpose of the thesis was corrected by including limitations of the purpose in section (1.4) delimitations.

By this, it is not said that generalization is a bad method but as Rist (1997) note, qualitative research obtains understanding of the phenomena that could be used for further investigations that could produce generalizations of the conclusion. The authors think this is a feasible method since a generalization would be too early to do, due to minor knowledge about how the phenomena was used and implicated by Swedish private bankers. It should be noted that the authors encourage, in section (7.3), others to make a qualitative study this in order to make generalizations concerning the subject.

The authors also want to note the reader of the complexity of having a quantitative approach to the purpose. As Morse and Richard (2002) note do quantitative methods aiming to prove to what extent a theory are correct by hypotheses and statistical research. As seen in the section (3), every client is unique. This would probably mean a new variable for every new client, creating a complex equation with many different variables. Not only would the model be hard to construct, more important it will be hard to draw clear conclusions for such a model.

To be certain of the right choice of method the authors fit their research in a matrix based on the main differences between quantitative and qualitative method stated by Holme and Solvang (1997). An “X” in the matrix notes the area where the authors want to fit their research.

<table>
<thead>
<tr>
<th>Quantitative method</th>
<th>Qualitative method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Little information about many observations</td>
<td>Much information about few observation units</td>
</tr>
<tr>
<td>Systematic and structured observations. Example surveys with fixed answer alternatives</td>
<td>Unsystematic and unstructured observations. No fixed answer alternatives.</td>
</tr>
<tr>
<td>Interest for ordinary, average or representative values</td>
<td>Interest for unordinary, unique or biased information</td>
</tr>
<tr>
<td>Description and explanation</td>
<td>Description and understanding</td>
</tr>
<tr>
<td>Audience or manipulation. The theorist watches from the outside as an observant.</td>
<td>Participant or actor. Observes from the inside.</td>
</tr>
</tbody>
</table>

*Figure 4.2.1 Main differences between quantitative and qualitative method (Holme & Solvang, 1997)*

From figure 4.2.1 and the argumentation above the authors fitted their thesis within the framework of qualitative method. The authors concluded that to be able to examine the purpose a qualitative method would be the best way to go.
4.3 Literature study

Literature study is often preceded by a search for literature, where; books, reports, articles and theses are literature in the framework of science (Ejvegård, 1993). To enlarge the trustiness of the theory discussed, the authors aimed to use well-accepted theory and literature in the frame of reference. Information gathering started at a basic level by reading course literature dealing with investment analysis. Further on books were found that just concentrated on private banking. For more advanced and specialised theory articles from assorted academic journals was used. Theories that mostly have been used are Investment theory, portfolio theory, and extend portfolio theory. Mere part literature used is collected from library of Högskolan i Jönköping, however literature is also borrowed from other university libraries in Sweden. Course literature from investment analysis at Baylor University has also been used. For deeper understanding of the problem scientific articles has been used, collected from the databases available at the library of Högskolan i Jönköping.

4.3.1 Primary and secondary data

It is important to make a distinction between primary and secondary sources of information (Bell, 2000). Primary data are facts collected by the researcher, while secondary data are facts collected by other persons or organizations (Andersen, 1998). Primary data are full text articles, books and reports while secondary data is collected from abstracts and bibliographies (Bell, 2000).

As stated in section (4.3) the authors information gathering started at a basic level with course literature to move on to full text books and articles for more advanced and specialised theory. As seen above both primary and secondary data has been used to gather information for this thesis. Not depending if the authors have read primary or secondary data the goal of the authors has always been to choose reliable and accepted literature. This has resulted in that articles and books from known organisations have been prioritised before literature from unknown organisations or authors. For the same reason the use of information from Internet has been limited.

4.4 Empirical investigation

For empirical investigation, a case study was used. Four fictitious investors were created with different features that were sent out to ten private bankers. To limit the investigations complexity it was decided that maximum four answers from respondents would be analyzed, more about the sample in section (4.6). According to Yin (2003) case studies give the researcher the ability to isolate a problem and to create a deeper understanding of a problem (Yin, 2003). Case studies enable the researcher the chance to delimit a problem which make is easier for the researcher to study and interpret a problem (Bell, 2000).

Due to the problem investigated, it seemed correct to use a case study since it enabled the authors to create fictitious investors that had specific features that where inline with extended portfolio theory and the authors could investigate which features private bankers thought was important when constructing a portfolio for the fictitious client.

4.4.1 Concerning the creation of the cases

Empirical data could be retrieved by two methods: Monitoring also known as observation or interrogation also known as communication method. The former means a process
where the researchers monitors and observes a problem and interprets the outcome without actively searching for responses of any subject in the observation. In the interrogation method the researcher actively seeks the response of the subjects by interviews, mails, letters and surveys. This method is useful in research where the subjects own opinion is important for the research (Copper & Schindler, 2001).

Since the private bankers own opinion is crucial for the research an interrogation method was used. The subjects were asked to answer the empirical material and to give an explanation why each specific portfolio was suitable for each fictitious investor in the case.

The authors created four cases in order to gather empirical data as base for the analysis in the thesis. Each of the four cases was created as a fictitious individual, with different features, that were presenting their situation for a private banker to start a savings portfolio. The cases were created with the intention to obtain legible and clear answers from the respondents. Therefore each feature of all individuals was chosen carefully, this to avoid cases with too large contradictions built in. Often two or more features of each individual influence the fictitious portfolio in the same way, this to obtain clarity. The original cases that were send out to the private bankers, se appendix one to four, is in Swedish since the authors wanted to limit errors due to language problems. In appendix five to eight the reader can see the cases translated into English.

Christensen et al (2001) tells us that in order to not reduce the response frequency it has to be: a limited number of questions and easy to understand and answer the question asked. The authors discussed how long and complex the cases should be. Finally the authors decided that the length of the cases should be no longer then half a page with only relevant information included with the objective not to confuse the respondents and decrease the response frequency. The final version of the cases can be seen in the appendix 1-8. Christensen et al (2001) also point out the importance of a clear intention before constructing a material for empirical data gathering (Christensen et al, 2001).

A number of cases were constructed in order to strike balance between simplicity of cases and details that would make the analysis meaningful. Four cases were finally constructed that included all features and elements of the investor the authors wanted to make research about. The authors first wrote the introduction chapter (1), the purpose (1.3), two theory chapters (2 and 3) and used them in order to gather enough knowledge and a clear intention before constructing the cases.

4.4.2 Sample of private bankers

Saunders, Lewis and Thornhill (2000) argue that qualitative methods should use a smaller sample to be able to draw any conclusions about the information gathered, while quantitative research can use larger sample due to the fixed investigation of variables. This since a larger sample gives the researcher the ability to generalize the result for the population (Saunders, Lewis & Thornhill, 2000). Trost (1997) mean that statistically representative samples are only of interest when dealing with quantitative research. The aim with a sample in qualitative research should be to include as large as possible variety of individuals in the sample. In the context of a qualitative method a strategic sample should be considered. Making a strategic sample start by defining some characteristics of the respondent that are important and will have implication of the respondent’s answers (Trost, 1997). Esaiasson (2002) mean that a strategic choice is practicable when the researcher is searching for specific information (Esaiasson, 2002).
The authors defined three characteristics, that the authors could have major implications for the answers of the respondent;

- If the respondent represented a organisation with broad business on private banking was a part of it or if the private banker came from an organisation specialised on private banking
- If the private banker was active at the date the research package was sent out.
- If the respondents worked with private banking as an all time task.

There for the small sample of 10 research packages, consisting of four cases, were sent out to 10 respondents divided equally on broad organisations and specialised organisations. Two of the defined characteristics were set up as sample restrictions. For all respondents the author demanded that they were active private bankers and worked fully with the job of private banking. When sending out the packages the aim of the authors was to get sufficient answerers from four respondents, equally divided between specialised organisation and broad organisations, providing the authors with an empirical material of 16 cases to be analysed.

### 4.4.3 Final sample

Only two of the ten research packages, consisting of four cases, were sent back to the authors in time. The final sample did not meet up with the goal the authors set up in advance when it came to sample size or diversification. This since both respondents represents organisations with broad business. The authors will refer to them as Respondent A and Respondent B or simply A and B. Down below further details about the respondents is given.

- Respondent A is a large European finance group with bank and counts over 500 offices spread out over the whole geographical region. The respondent has a large focus on private banking.
- Respondent B is a large finance group within the Nordic and Baltic. The finance group has over 7 millions private customers and has a strong focus on private banking.

### 4.4.4 Data collection modes

All research methods demand a certain data collection that later is analyzed, interpreted and drawn conclusions from (Christensen et al, 2001). Burns and Bush (2005) argue that there exist four ways to collect data: Person-administered surveys, computer-administered survey, self-administered survey and mixed modes (Burns & Bush, 2005).

- Person-administered surveys. An interviewer reads questions, either face to face or over the telephone to the respondent. Drawbacks of this method are human errors, slowness and cost. Human errors have a higher frequency in person-administered surveys since it is easy to change the wording of the questions, which may change the meaning of the questions (Burns & Bush, 2005).
- Computer-administered survey. There exist a large number of computer-administered surveys but the most common one is that the respondent answers the
questions online. High set up cost and requirement of technical skills are some drawbacks of computer-administered surveys (Burns & Bush, 2005).

- **Self-administered survey** is where the respondents complete the surveys on their own. The advantage with this kind of method is that there exists no need for an interviewer and computer program. Also the respondent does not feel stressed to answer the questions quick and not be nervous since the answers can be double-checked. One weakness with self-administered surveys is that the respondents have the full control. This can result in that the respondents do not complete the survey, gives a misleading answers since the respondent are unable to interact with the researcher. To minimize this kind of errors Burns and Bush (2005) note that clear instructions has to be given with the research. Also the problem of respondents not sending in their survey according to time limits or refuse to return it completely are usual using self-administered surveys (Burns & Bush, 2005).

- **Mixed modes** use multiple data collection methods as person-administered surveys combined with computer-administered surveys (Burns & Bush, 2005).

The authors chose to use the self-administered survey. This since the authors saw three large advantages with the method: high comfort for the respondent, ability to double-check answers and consistency in information flow to the respondent. That the respondent would not feel stressed was important for the authors of the simple reason that the authors wanted to retrieve as high qualitative answerers as possible. The authors believe that the respondents would be able to deliver the best answers when the time to analyse and to think was enabled. The possibility for respondents to double-check and collect more information was another characteristic wanted by the authors. The authors saw a high consistency in the information flow to the respondent as crucial, if the empirical result would be seen as trustworthy at all. When cases was sent out the profile of the fictitious investors would be consistent while during a interview it would be hard to construct the same profile, all the time, since different questions could be asked and the authors may answer the same question differently. If there would not be any consistency in the investor’s profiles and appearance it would be hard to compare the portfolios created by different private bankers. This problem is usual in person-administrated surveys and would have so serious implications for the study that the authors limited the choose of data collection modes pretty fast. But the self-administered survey mode is not perfect and one of its drawbacks is that the respondents do not complete the survey or simply just not send it back to the researchers. The authors did not note this before sending out the research but the problem was later going to remind the authors about its existence. This problem would later have implications on the sample⁸. Another drawback mentioned about self-administered surveys is the possibility of misleading answers due to misunderstanding and the lacking possibility for the respondent to communicate with the researchers. In order to minimize this kind of errors the authors follow Burns and Bush (2005) suggestion and provided clear instructions attached to the cases. The authors enabled also the respondents to communicate during the answer process with the authors through electronic mail and phone. One respondent used this opportunity one time but the question was more of formal art than about details in the cases.

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⁸ Only two of ten private bankers responded. For more information about the sample see section 4.4.3.
4.4.5 Mail research

In a mail survey the questions of interest for the researchers are mailed to the respondents. Mail surveys are powerful since they are effective and efficient. Christensen et al (2001) argue that a large advantage of mail surveys is that they easy reach large geographical areas without high cost. Christensen et al (2001) also point out that there should be easy for the respondents to send back the survey to the researcher.

Since the cases were sent to Jönköping, Gothenburg and Stockholm the authors choose to use a mail research. This due to simplicity of logistic and cost efficiency. In our golden age of Internet electronic mails was sent to the ten private bankers with the cases attached. The use of the electronic mail system gives the favor besides being quick and cheap that the respondents very easy can send back the survey to the researcher.

4.5 Theoretical- empirical research and beyond

After theoretical research, empirical research and data collection the analyses component of the data was left. The authors started to compare the theoretical framework with the data collected. Esaiasson et al (2002) compare this method to a jigsaw puzzle. This puzzle has two parts:

- The first step is to collect and compile all material covered. The important parts was lifted out from the cases and reprinted to simplify the analyse, a method that Esaiassion et al (2002) mention as concentration (Esaiassson, Gilljam & Wägnerrud, 2002).

- The second step is to build the puzzle. The researcher tries to find patterns and compare empirical investigation with theory and interpret the result to reach a conclusion (Esaiassson, Gilljam & Wägnerrud, 2002).

The authors found this to be a feasible method and by comparing the theoretical frame of reference with the answerers from the cases it guided the authors to their conclusion.

4.6 Criticism of method

In every research it is important that the information and theory gathered is correct and trustworthy, since it has implications on the conclusions. According to Esaiassson et al (2002) criticism is one of the single most important tool to avoid error and mistake in the information. Validity and Reliability is two instruments available for the researcher to secure trustworthiness (Esaiassson, Gilljam & Wägnerrud, 2002). For results to be trustworthy they both have to be valid and reliable. De Vaus (2002) note that the two concepts are related but not the same. A result can be valid without being reliable and the other way around. However is it not possible that the result can be perfectly valid and reliable, but the goal of the researcher should be to maximize them (De Vaus, 2002).

In order to examine how correct and trustworthy the thesis are the authors use suggested, by Esaiassson et al (2002), framework of validity and reliability. Finally the authors merge the peaces together and conclude the critics and trustworthiness of the thesis.
4.6.1 Validity in qualitative research

Validity is the criticism if the researcher measures what the project are suppose to measure. It measures how correct the observation is (Hartman, 2004). To secure a high validity in qualitative research validity has to be considered trough the entire research. It means that the researcher has to carefully consider which subjects to interview, which questions to ask, and correctly interpret, analyse and quote the information gathered (Patel & Davidson, 2003). De Vaus (2001) note that it is of great importance to design the empirical material used to gather data, so the conclusions can be delivered in a proper way. Misunderstandings will hurt the validity of the research but if the researcher is prepared for this the implication of misunderstandings can be minimized (De Vaus, 2001).

Doubts can be raised if a qualitative method is the optimal method to measure what is projected to measured and fulfil the purpose of the thesis. The purpose contains parts that bears signs of generalization while the method do not fully fit for this purpose. Some delimitations have been added to the thesis but the situation is far from optimal and lower the validity of the thesis.

4.6.2 Reliability in qualitative research

Reliability of the research is the trustworthiness of the result and conclusion drawn from collected information, which is attained if randomly mistakes and errors is left out in the research (Hartman, 2004). In quantitative research high reliability is ensured if the same result would be achieved at different occasions. The measurement of reliability, just as validity, differs in qualitative research. Since Reliability is easier to derive or calculate in quantitative research method, it has a different meaning in qualitative research (Patel & Davidson, 2003). To secure high reliability in qualitative research method the researcher has to systematic ensure that errors and misinterpretations are minimized by the researcher so the conclusion drawn is trustworthy (Hartman, 2004).

The answers to the case was as soon as possible interpreted to minimize any randomly mistakes. The authors’ also interpreted information separated and then compared the conclusions to decrease the chance of any misinterpretation. If both authors has the same conclusion, conducted separately it would increase the reliability of the research. The authors chose to use case studies instead of interviews increases the reliability of the research since interviews would increase the chance of giving dissimilar personalities or information at the different occasions. With case studies the authors made sure that the private bankers was given the exact same information about the fictitious investors.

The construction of the cases was a hard and long process. If the cases are made in such a manner as they provide trustworthiness to the empirical study is not for certain, but the authors has done everything in order to minimize mistakes and errors. Grave questions can be raised of how reliable the answers from the empirical material in connection to the sample used in the study. The sample used does not meet up to the initial standards drawn up by the authors about differences in the type of respondents and sample size. The final sample of only two respondents both from organisations with broad businesses does have large shortfalls and limit the reliability of the thesis.

4.6.3 Conclusions of criticism of method

From the criticism of the method the authors conclude that the thesis posses reasonable high validity, however it do exist a problem concerning the chose of method connected to
the chosen method of qualitative research. The weak point of the thesis is the low reliability due to an insufficient and biased, towards organisations with broad businesses, sample. The empirical research do only reflect answers from two private bankers and this have most probable implications for the reliability of the thesis.
5 Empirical Findings

In this section the answers on the cases from the two private bankers is presented. The answers is presented for each case by each private banker, this in order to make the empirical findings clear to understand and easy to go back to, if needed. The section start off with that the authors is clarifying which features was included in each case.

5.1 Theoretical implications of features of the cases

When constructing the cases certain features were chosen by the authors to be included in the cases. These are all features that according to theory should have significant implications on the asset allocation. Each fictitious investor was allotted the following features.

5.1.1 Case 1 Jay Graw

- The company Jay Graw is working for is a stable company that has been in the market for more than 20 years and temporary business cycles do not have a large impact on the firm. Stable incomes from a stable firm provide Jay Graw with the opportunity to tilt his savings towards more risk.
- High salary of 50 000 SEK a month. Jay Graw salary is high, average salary in Sweden was in 2004 approximately 18 000\(^9\) (Statistiska Central Byrån, 2006) a month, and this provide Jay Graw with the opportunity to tilt his savings towards more risk.
- Age 42. Jay Graw have many years of productiveness ahead of him that provide him with the opportunity to tilt his savings towards more risk.
- Probable feature expenses for his mother’s nursing home within three to ten years. A probable expense like this has to be planed for to secure existence of sufficient and liquid funds. Therefore a part of the portfolio should be placed within secure assets, protected from short run volatility.
- Owning an apartment, worth approximately 2 500 000 SEK, but want to move back to Big Spring when he retire. Probable, if the apartment sustain in value, a stock of capital will be freed when selling the apartment and buying a home in Big Spring. If the prices of apartments in the area are volatile the effect of the future selling should be treated as a volatile asset class and Jay Graw’s portfolio should be tilted towards less risk. Implication of a stable real estate market is the other way around the portfolio could be tilted towards more risky assets.
- Jay Graw note that he has managed to invest his money in the pension plan in a satisfying way.

5.1.2 Case 2 Johan Ungtupp

- 25 Years old. Johan Ungtupp have many years of productiveness ahead of him that provide him with the opportunity to tilt his savings towards more risk.
- Labour flexibility and considering delaying pension. This provides Johan Ungtupp to tilt his portfolio toward more risk.
- Volatile business and large volatility in salary. Johan Ungtupp’s firm is risky both in amount salary paid but also the security of receiving salary. Since Johan Ungtupp’s income is volatile his saving’s portfolio should be tilted towards safer assets.

\(^9\) Mean salary for all Swedes in 2004: 215 971 SEK. 215 971/12=17 997 (Statistiska Central Byrån, 2006)
• Rented apartment. The absence from larger mortgage provides Johan Ungtupp with the opportunity to tilt his savings towards more risk.
• Planed to extend family within 3-8 years. A child is an expensive hobby and should be planed for. Costs like this has to be planed for so there exist sufficient and liquid funds. Therefore a part of the portfolio should be placed within secure assets, protected from short run volatility.

5.1.3 Case 3 Anders Övernäs
• 32 years old which gives him a rather long time horizon that tilts the portfolio to riskier assets.
• However he needs liquid funds to support the expenses of the growing child.
• Wealth in form of an oil well which generate between 5000 and 10 000 a month and it is uncertain how long the well will be active. The volatile and unknown time of the income means that he should invest in less volatile assets to secure a balance of volatile and non-volatile assets in the portfolio. The implication of the oil well is especially serious since the cash flow from the volatile asset is planed to support daily life consumption.
• The salary at the bank that is not sufficient for planed consumption and to pay off the mortgage the family has on the their new home. This means that case 3 can not afford to much volatile and illiquid assets in the portfolio since some months case 3 might need extra funds for consumption and amortizing. The mortgage works as a negative balance of bonds and the financial portfolio should be tilted to bonds.

5.1.4 Case 4 Calle Eriksson
• Wealth of 5 millions, which for the moment is invested in a bank account. The large wealth means more risk capacity and the investor could tilt the portfolio towards risky assets.
• Salary of 40 000 a month. The high annual salary gives him the supply of liquid funds and he would be able to invest more in risky asset since the need for withdrawal from the portfolio is low and the investment has time to make up for any downward trend.
• 10 000 each month in 10 years by government lottery. The feature of the lottery is identical with a bond as should be treated as one; therefore the portfolio should be tilted to riskier assets.
• It is probable that he wants to donate some additional wealth to the grown up daughter. This increase the investment horizon since the daughter has a longer life expectancy and tilts the portfolio to more volatile assets like stocks.
• Interested to donate money to green peace after he passed away. This wish also affects the investment horizon since green peace is an organisation with a planed life time in perpetuity.

5.2 Empirical results
The answers retrieved from respondents A and B has been summed together, the essential parts have been lifted out and finally all answers have been standardized to simplify the analysis of the cases. Each private banker has suggested a variety of mutual funds from different stockbrokers. Many of the suggested funds are products that are managed by the own bank of the respondent. To keep the respondents anonymous and to simplify the structure of the analysis the suggested mutual funds has been divided into three broad risk categories: LOW, MEDIUM and HIGH. LOW is defined as mutual funds with a standard
deviation lower than 13% and include for example mutual funds investing in Sweden and Global diversified stocks. MEDIUM is defined as mutual funds with a higher standard deviation than 13% but lower than 20% including mutual funds investing in small enterprises and diversified emerging markets. HIGH is defined as mutual funds with a standard deviation higher than 20% such as non-diversified emerging market. The standard deviation has been measured over a period of 36:5 months and has been retrieved from Morningstar 13 of May 2006.

5.2.1 Respondent A Case 1

![Pie chart showing asset allocation for Case 1](image)

*Figure 5.4.1 Asset allocation Respondent A case 1*

For Case 1 respondent A allocated all assets in stocks through mutual funds. The allocation is not diversified between assets and heavily weighted towards low risk mutual funds. Due to the 100% allocation in stocks the portfolio is expected to have high returns with high volatility.

Respondent A has chosen to concentrate on the following feature of case A. The high managements position with stable and high salary. Young investor with many years of work and annual salaries in front of him. A long investment horizon although the mothers condition has to be considered since it could affect the investment horizon. The investors risk profile allow his portfolio to be tilted against risky assets which gives opportunity to high returns over time. Large amount of illiquid capital in residential apartment could be treated as low volatile assets.

5.2.2 Respondent A Case 2

![Pie chart showing asset allocation for Case 2](image)

*Figure 5.4.2 Asset allocation Respondent A case 2*
For Case 2 A choose to allocate all assets in stocks through mutual funds. The allocation is not diversified between assets and heavily weighted towards low risk mutual funds. Due to the 100% allocation in stocks the portfolio is expected to have high returns with high volatility.

Respondent A has chosen to focus on following features: The overall feature of case two is the long time horizon. The respondent remarks on the volatile income and the risk of managing a own business which could affect the time horizon by early withdrawals.

5.2.3 Respondent A Case 3

For Case 3 respondent A have allocated 70% of the assets in stocks through mutual funds with a high concentration, 58%, towards low risk funds. The portfolio is diversified with 30% invested in Bonds. Due to the asset allocation in stocks and bonds the portfolio is expected to have high returns but with more stability than a portfolio with 100% invested in stocks.

Respondent A has chosen to focus on following features: A young family with large mortgage on their house. A volatile income from the oil well. Case 3 risk profile allow an average risk level in the investment portfolio.

5.2.4 Respondent A Case 4

For Case 4 respondent A have allocated 50% of the assets in stocks through mutual funds with a high concentration, 41%, towards low risk funds. The portfolio is diversified with 50% invested in Bonds. Due to the asset allocation in stocks and bonds the portfolio is expected to have medium returns and lower risk than a portfolio with 100% invested in stocks.
Respondent A has chosen to focus on following features: High salary with additional monthly income from previous won on lottery combined with a large wealth. Due to that case 4 has not been an active investor and his high age Respondent A has chosen to reduce the risk in the investment portfolio.

5.2.5 Respondent B Case 1

For Case 1 respondent B choose to allocate 95 % of the assets in stocks through mutual funds with a high concentration, 51 %, towards low risk funds. A small part of the portfolio, 5 %, is invested in Hedge funds. Due to the 100% asset allocation in volatile assets the portfolio is expected to have high returns but with high volatility.

Respondent B has chosen to focus on following features: Overall good private economy, high salary with additional wealth in form of illiquid assets locked in the residence. Many years of income bringing work left and long investment horizon. The risk profile of the investor is assumed to have a high ability to bear risk.

5.2.6 Respondent B Case 2

For Case 2 respondent B have allocated 68 % of the assets in stocks through mutual funds with a concentration towards low risk funds. 22% of the portfolio is invested in Bonds. A small part is invested in Hedge funds. Due to the 68% asset allocation in risky assets, 22 % asset allocation in Bonds and 10 % in Hedge funds, the portfolio is expected to have high returns but with higher stability then a 100% stock portfolio.
Respondent B has chosen to focus on following features: Due to his low age and long time horizon case 2 is a clear case of a 100% allocation in stocks. But by considering the volatility in income and job insecurity, in form of a own company in a competitive market the respondent chose to increase assets with less volatility.

5.2.7 Respondent B Case 3

![Figure 5.4.7 Asset allocation Respondent B Case 3](image)

For Case 3 respondent B have chosen to allocate 68% of the assets in stocks through mutual funds with concentration, 43%, towards low risk funds. 22% of the portfolio is invested in Bonds. A small part, 10%, is invested in Hedge funds. Due to the 68% asset allocation in risky assets, 22% asset allocation in Bonds and 10% in Hedge funds, the portfolio is expected to have high returns but with higher stability then a 100% stock portfolio.

Respondent B has chosen to focus on following features: The dominant factor within case 3 is the overall economic insecurity. Due to the large mortgage that needs to be amortized, a salary that is insufficient for the family’s daily consumption and the volatile income from the oil well. This features summed up together creates an overall insecure situation that imply that family cannot afford too large variances in their saving portfolio. On the other hand the investor has a long time horizon and should still have a portfolio dominated by stocks.

5.2.8 Respondent B Case 4

![Figure 5.4.8 Asset allocation Respondent B Case 4](image)

For Case 4 respondent B choose to have allocated 45% of the assets in stocks through mutual funds with concentration, 28%, towards low risk funds. 45% of the portfolio is
invested in Bonds. A small part, 10%, is invested in Hedge funds. Due to the 45% asset allocation in stocks, 45% asset allocation in bonds and 10% in hedge funds the portfolio is expected to have medium returns but with low risk.

Respondent B has chosen to focus on following features: The individual large wealth is a dominant feature in this case. Even a small volatility in the stock market would mean a large shift in absolute terms of the wealth. Also due to the large wealth the case don’t need to accept large risk in the investment portfolio. This since even a safe asset with low return in percentage will create sufficient cash flow. The investor is close to retirement and has a short time horizon.
6 Analysis

In this chapter the authors merge the empirical findings with the framework in the theoretical chapters. The cases are then analysed and similarities and differences are pointed out. The analyse aim to create material for later be used to answer the questions and fulfil the purpose of the thesis.

6.1 Case 1

Both respondents A (Figure 5.4.1) and B (Figure 5.4.5) have chosen to allocate case 1s assets in an all-stock portfolio. The portfolio of respondent A is highly weighted towards stocks with lower risk while respondent B include stocks with more risk and even hedge funds.

6.1.1 Analysis of Case 1 from respondent A

The driving factor behind respondent A all stock portfolio is that case 1 has a high salary from a stable job, a long investment time horizon and that his overall risk profile allow him to bear risk. The large amount of locked in capital in the residential tilt case 1 portfolio towards high risk assets, since the respondent A believes that the residence has a low volatility in price and could be treated as a bond. Respondent A also gives a remark on the condition of case 1s mother and the possible need for short term withdrawal and the affects on the time horizon. This makes case 1 vulnerable for short term negative business cycles in case of withdrawal needs.

The theory by Campbell and Viceira (2002) to be seen in section (3.1.3) and theory by; Chen (2006), Campbell and Viceira (2002), Bodie, Merton and Samuelson (1992) to be seen in chapter (3.2.1), suggest that income is an important factor to take in consideration when creating a savings portfolio. According to Campbell and Viceira (2002) to be seen in section (3.1.3), should income be treated as an risk free asset while the extended portfolio suggest that the risk characteristics but also the correlation between the labour income and the return on financial assets should be examined and affect the portfolio choice. Respondent A has followed the extended approach and looked on the job security. Case 1s high salary is also mentioned as one of the driving forces behind a large risk exposure and this goes in line with what Richenstein (2004) claims in (3.2.2) where it is stated that more wealth means more risk capacity. A long investment horizon is a key feature for high allocation in equity according to respondent A and this follow what Richenstein (2004) and Gibson (1996) claim in section (3.1.1). Respondent A remark that the risk for future negative cash flows, connected with case 1 mother, will affect the time horizon, this is also in line with Richenstein (2004) and Gibson (1996). Large funds conserved in the residence should be included in the extended portfolio if the owner is planning to downgrade to a less costly accommodation due to Richenstein (2004), this has also been notified by respondent A.

6.1.2 Analysis of Case 1 from respondent B

Respondent B motivate the all stock portfolio with the overall good private economy of case 1 which allow negative trends in the stock market that most likely will be made up for over time. Features as the high salary, large amounts of locked in capital in the residence
that is treated as an investment with low volatility and long time horizon increase the case 1
ability to bear a volatile portfolio.

Implications from wealth, discussed by Richenstein (2004) in (3.2.2), and income discussed
by Campbell and Viceira (2002) in section (3.1.3) and in section (3.2.1) presented by Chen
(2006), Campbell and Viceira (2002), Bodie, Merton and Samuelson (1992), have been
considered by respondent B. A long time horizon is also mentioned as a driving feature of
the all equity portfolio, this in line with Richenstein (2004) and Gibson (1996) claims in
(3.1.1). Respondent B treat the locked in capital in the residence as a safe asset and use this
feature to tilt the portfolio towards risky assets this in line with Richenstein (2004) pre-

6.1.3 Suggestion according to theory
As discussed by Campbell and Viceira (2002), Chen (2006), Bodie, Merton and Samuelson
(1992) the income in case 1 should be classified as stable (3.1.3 and 3.2.1) allowing the
private banker to tilt the investment portfolio towards risky assets. Also the high income
(3.2.2), long time horizon (3.1.1) and freed capital from downgrading personal residence
(3.2.6) support the trend towards risky assets (Riche
stein, 2004, Gibson, 1996). Case 1 has also gained on his investments within the pension system and this should also make impli-
cations of larger risk taking within the investment portfolio according Bodie (2001), Camp-
bell and Viceira (2002) and Richenstein (2004) in chapter (3.2.5). However the condition of
case 1s mother and the future negative cash flows connected to that should imply a shorter
time horizon for a portion of the savings portfolio and investment in safer assets (Richen-
stein, 2004).

6.2 Case 2
Respondent A has chosen to allocate case 2 assets in an all-stock portfolio. The portfolio
of respondent A is highly weighted towards stocks with lower risk (Figure 5.4.2). Respond-
ent B however chose to allocate 68 % in stocks with a concentration of 43% in low risk
stocks. The rest of the portfolio is allocated with 22% in invested in bonds and 10 % in

6.2.1 Analysis of Case 2 from respondent A
Respondent A support an all stock portfolio with the following feature of case 2: Long
time horizon which enable him to bear risk. Respondent A makes a remark on the volatility
of income and the risk of a own company that could lead to early withdrawal.

Section 3.1.3 and 3.2.1 discus the income feature and its implications on asset allocation.
The classical theory presented by Campbell & Viceira (2002) in (3.1.3) claim that income
should be treated as a risk free asset while the extended portfolio (3.2.1) suggest that the
risk characteristics also should be considered (Chen, 2006, Bodie et al, 1992, Campbell &
Viceira, 2002). Respondent A has made a remark on the feature that the volatile income
and job security could effect the financial need of cash and early withdrawal from the port-
folio that is in line with extended portfolio theory. However when constructing the portf-
olio Respondent A has chosen to consider the income feature in line with classical theory
(3.1.3) and treat it as a risk free asset, enabling them to tilt the portfolio towards stocks.
Also the long time horizon has guided the private banker to allocate assets in stocks, which
is in line with Gibson (1996) and Richenstein (2004) states in section (3.1.1).
6.2.2 Analysis of Case 2 from respondent B

Respondent B reflected on the features of low age and long time horizon that allow case 2 to bear high risk. According to B these features should imply an all-stock allocation, however the feature of volatile income and job security force Case 2 to tilt a portion of the portfolio to less risky assets.

According to Gibson (1996) and Richenstein (2004) in section (3.1.1) time horizon is a crucial part that effects the asset allocation. If the time horizon is longer the investor should according to theory tilt the portfolio towards riskier assets. The income feature that is discussed in (3.1.3) classical theory and (3.2.1) extended theory has contradictions (Chen, 2006, Bodie et al, 1992, Campbell & Viceira, 2002). Respondent B follows the extended theory and tilts the portfolio to include less volatile assets even though time horizon suggests an all-stock portfolio.

6.2.3 Suggestion according to theory

According to Richenstein (2004) and Gibson (1996) in chapter (3.1.1), a long time horizon as in case 2 should imply an all stock allocation. Case 2 also consider to delay his pension and has a labour flexibility that provide Case 2 to tilt his portfolio towards risky assets, according to extended theory presented by Bodie (2001), Campbell & Viceira (2002) and Bodie et al (1992) in section (3.2.3). However the volatile income that case 2 posses and his low job security by his own business drives the asset allocation towards less volatile assets since the monthly income is volatile and a allocation of that only includes stocks would generate a assets allocation that has a over exposure towards volatile assets, as can be read in section (3.2.1) presented by Chen (2006), Bodie et al (1992), Campbell & Viceira (2002) and in section (3.2.7) presented by Richenstein (2004), Campbell & Viceira (2002). Case 2 plan to extend his family. A child needs sufficient and liquid funds, therefore, as can be found in section (3.2.1), a part of the portfolio should be placed within the secure assets, protected from short run volatility (Chen, 2006, Bodie et al, 1992, Campbell & Viceira, 2002).

6.3 Case 3

Respondent A allocated 70 % of the assets in stocks through mutual funds with 58 % concentrated in low risk funds. The 30 % that is left is allocated in bonds (Figure 5.4.3). Respondent B chose to allocate 68 % in stocks with a concentration of 43% in low risky stocks. The remaining part of the portfolio is allocated as 22% in invested in bonds and 10 % in hedge funds (Figure 5.4.7).

6.3.1 Analysis of Case 3 from respondent A

Respondent A have focused on features of long time horizon increasing the allocation of risky assets in the portfolio. However the large mortgage that the family has influences the risk capacity negative, it forces case 3 to bear less risk in the portfolio. The volatile income from the oil well influences the allocation to less risky assets. The risk profile of case 3 allows an average risk level in the investment portfolio.

The time horizon described in (3.1.1) should according to Gibson (1996) and Reichenstein (2004) influence the distribution of the portfolio and longer time horizon should increase risky assets. A mortgage should according to extended theory in section (3.2.4) increase the
allocation of bonds in the portfolio since a mortgage act as a negative bond cash flow and has to adjust with an increasing allocation of bonds (Bodie et al, 1992, Reichenstein, 2004). The volatile income from the oil well has also been considered and tilted the portfolio towards assets with less volatility as stated in (3.2.7) by Reichenstein (2004).

6.3.2 Analysis of Case 3 from respondent B

When constructing the portfolio for case 3 Respondent B chose to focus on the overall feature of economic insecurity. The large mortgage that has to be amortized, salary that is not sufficient for daily consumption and a volatile income from the oil well is all features that create an insecure economic position and increase the need for stability and liquid needs in the financial portfolio. However case 3s time horizon long which still enables case 3 to have a stock dominated portfolio.

In extended theory (3.2.4), mortgage affect the asset allocation of the portfolio. A investor with a large mortgage should compensate this by a larger investment in bonds (Bodie et al, 1992, Reichenstein, 2004). As found in (3.2.2), a salary that is not sufficient for consumption do according to extended theory affect the risk capacity negative and the portfolio should be tilted towards less volatile assets (Reichenstein, 2004). The time horizon (3.1.1) also influence the allocation of the portfolio, a longer time horizon should increase risky assets within the portfolio (Gibson, 1996, Reichenstein, 2004). The income from the oil well is highly volatile and this has been made up for by orientate the portfolio towards assets with less risk, all according to Reichenstein (2004) in section (3.2.7).

6.3.3 Suggestion according to theory

According to Gibson (1996) and Reichenstein (2004) the young age of case 3 gives a rather long time horizon and should tilt the portfolio to riskier assets, however the growing child decrease the time horizon by liquidity needs (3.1.1). In extended theory (3.2.2) a salary that does not make up for chosen lifestyle consumption affect the risk capacity and the portfolio should be tilted towards less risky assets (Reichenstein, 2004). This is also pointed out, in section (3.1.2), by Gibson (1996) where he argue that if a person have a hard time to live on its cash flow the clients assets should not be invested in illiquid assets since there exist a risk of an early withdrawal. As stated by Rechenstein (2004) in (3.2.7) the additional unique situation of the oil well has to be considered when constructing a financial portfolio and should decrease the possession of stocks in the portfolio. Case 3 owns a portfolio with a high leverage due to the large mortgage, on the residence. The significant mortgage should tilt the portfolio towards more secure assets according Reichenstein (2004) in section (3.2.4.)

6.4 Case 4

Both respondent A (figure 5.4.4) and B (figure 5.4.8) have chosen a diversified allocation approximately equally divided between stocks and bonds for case 4. The portfolio of Respondent A bear however less risk than the portfolio created by B, this since A have chosen to allocate assets more among equity with lower volatility than B.

6.4.1 Analysis of Case 4 from respondent A

The equal allocation between stocks and bonds is derived form two main features of case 4: capital possessions and age of investor. The high salary, additional monthly income from
lottery and saved wealth is three features that imply an allocation tilted towards risky assets. On the other hand the investment horizon is narrow due to the high age of the investor and this limit the risk that the portfolio can bear. Also the factor that the investor has not shown any signs of active investment earlier reduces the risk of his portfolio.

The capital possessions is interpreted to tilt the asset allocation towards more risky asset and this follow the same pattern of what is clamed in section (3.2.2) in the extended portfolio theory by Reichenstein (2004). A feature tilting the portfolio the other way, in favour of safe income is the limited time horizon where chapter 3.1.1 in the classical portfolio theory state that in a short time horizon tilting the portfolio towards interest-generating investments such as bonds is preferable (Gibson, 1996, Reichenstein, 2004). Income as mentioned in classical portfolio theory (3.1.3) and in the extended portfolio theory (3.2.2) should enable an investor to increase the risk in the portfolio if the salary are sufficient and safe (Chen, 2006, Bodie et al, 1992, Campbell & Viceira, 2002). Another factor that strongly influences the allocation towards risky assets is the fact that case 4 is receiving a fixed amount of money each month from the lottery. This unique situation is dealt with in theory section 3.2.7 that layout the theory that the lottery win can be treated as a large bond with the implication the investment portfolio should be concentrated towards equity (Reichenstein, 2004).

6.4.2 Analysis of Case 4 from respondent B

Large wealth is the dominant feature of case 4, that enables him to tilt the portfolio towards risky assets, but since case 4 have sufficient funds he do not have to bear risk if he do not wish for it. The high ages of the investor limit the time horizon and also the risk exposure of the portfolio.

Wealth as mentioned in (3.2.2) gives the investor the opportunity to tilt the portfolio towards more risky assets since there exist a positive relationship between wealth and risk (Reichenstein, 2004). The feature that contradicts an all allocation in high volatile assets is the short time horizon that forces the allocation towards less risky assets. Chapter (3.1.1) conclude that volatility creates a large risk for a portfolio in the short run and that is why case 4s portfolio should be tilted to include safe assets (Gibson, 1996, Reichenstein, 2004).

6.4.3 Suggestions according to theory

Case 4 large wealth is an important feature with several implications for the portfolio suggested by the private banker. Chapter (3.2.2) in the extended portfolio theory state that wealth extends the portion of funds invested within the risky assets. This due to two reasons: the fact that the time horizon should be fitted towards the shape of the time horizon of the object that will be supported of the wealth and a positive relationship between wealth and risk capacity (Reichenstein, 2004). Case 4 clearly state that he wishes that some of his wealth should be donated to Green Peace, with a time horizon in perpetuity. Since the time horizon of the investor and Green Peace are so different a suggestion is to divide the portfolio in different parts according to their time horizon. This will imply that the assets invested to support Case 4s life style will have a larger allocation towards less volatile assets while assets invested in the intention to be donated should be concentrated towards volatile assets( Gibson, 1996, Reichenstein, 2004). The same logic is applied for planed possible in heritage of the daughter. A positive relationship between wealth and risk capacity is also implicated by the high salary and tilt the investment portfolio towards more risky investments according to Reichenstein (2004) in section (3.2.3). Case 4 bear a very unique
situation concerning the fixed income of 10 000 SEK each month in twenty-five years derived from a won lottery. Section (3.2.7) deal with a situation like this and conclude that the fixed income from the lottery can be seen as the investor holding a large bond. With such a large safe bond in the extended portfolio other assets should be allocated towards assets containing more risk (Reichenstein, 2004).

6.5 Overall analysis

The comparisons above signalise to the authors that the answers from the private bankers goes well in line with the guidelines suggested by theory. In a few cases however it should be noted that the features suggested by theory has been left out by the private bankers. This features are implications from: family, pension plans, labour and adjusted time horizon due to wealth. It should also be noted that none of the private bankers use cash as an asset class to include in the portfolio.
7 Conclusion

By using the analyze the authors answers the two sub questions to finally fulfil the purpose of the thesis. Also a short criticism of the validity and reliability of the thesis is presented. The author’s reflections around the thesis are to be found in this section. The chapter ends with suggestions from the authors concerning further studies.

7.1 Final conclusion

By comparing the analysis of the empirical research and the suggestions of cases by theory, the following conclusion can be drawn about what features the Swedish private bankers focus on when building a portfolio for their customers. The comparison gives an overall picture that the private bankers focus on the majority of the features suggested by theory. However four features that should have implications on the assets allocation has been neglected or not considered. These are implications from: family, pension plans, labour and adjusted time horizon due to wealth.

Case 1, 2 and 3 shows tendency that large economic resources will be needed to support the family’s lifestyles and this should have been considered when allocating assets. Most notable of the cases is respondent B case 1, where the mother’s condition that probably will generate large negative cash flow in the future has been neglected. Case 1 clearly states that he has a large pension plan and this has not been noted by respondent A or B. As stated in theory this enables the portfolio to be tilted towards more assets with higher risk (Bodie, 2001, Reichenstein, 2004, Campbell & Viceira, 2002). Even if both respondents have suggested an all stock portfolio the volatility is suggested to be larger. Case 2 enjoy large flexibility but also very volatile income and low job security. This has been noted and adjusted for with 22% bond allocation in the portfolio by respondent B. Respondent A however makes a remark on the features but makes no adjustment in the asset allocation leaving the investor with a portfolio of 100 % stock allocation. Due to case 4’s large wealth, wish of donation, and a daughter that can heritage the wealth, a part of the portfolio should be adjusted for time horizon (Reichenstein, 2004, Gibson 1996). This has not been considered by any of the two respondents and will in the long run lead to an unnecessary low return generated from the portfolio.

The authors can conclude that the respondents seem to be familiar with most of the features mentioned in theory, however do the observations not always lead to an adjustment in the allocation of assets. Factors as time horizon and risk profile has for every case been noted and adjusted for. Due to this the authors conclude that the two main driving factors connected to the asset allocation, suggested by Swedish private bankers, is: time horizon and risk profile of the customer. Even if the private banker has noted features that should, by theory, tilt the portfolio towards a different allocation the tilt is not always justified. This problematic is touched in case 4 where respondent A has noted that case 4 has not showed any interest for investments earlier and B that case 4 have so much funds that he do not need to take risk. In this case an adjustment in allocation has to be discussed with the client since the roll of a private banker is to be an advisor not a guardian. The thesis first question is stated and answered below.

What features do the Swedish private banker look upon when building a portfolio for their customers?
Although that the Swedish private bankers consider most of the features mentioned in the cases, the tendency is that they look and rely strongly upon time horizon and the risk profile of the investor.

It is hard to decide if a portfolio is suitable for an investor or not, this since a specific portfolio only can be judged by its owner. However if theory is correct, the private banker should be able to construct a suitable portfolio by considering and adjusting for discussed features in the theoretical chapter. The thesis second sub question is stated and answered below.

**Do the used features add up to the holistic view the private banker needs to build a suitable portfolio for the client?**

Due to the finding that a great deal of the features mentioned in the cases are considered the authors concluded that; the used features by the Swedish private bankers add up to a holistic view that is needed to build a suitable portfolio for their client.

The purpose of the thesis is stated as:

*The purpose of the thesis is to describe if Swedish private bankers look on enough features of an investor to be able to prescribe the appropriate portfolio for the investor.*

By answering the two sub questions affirmatively the authors fulfil the purpose of the thesis by concluding that:

_Swedish private bankers look on enough features on a client to able to prescribe an appropriate portfolio for the investor._

The authors want to note that the reader should be critical to the result of this thesis since problems with validity and reliability exist. This due to the fact that; there exist a problem concerning the chose of method connected to the purpose of the thesis and that the sample used for the empirical study is insufficient and biased.

### 7.2 Own Reflections

After one semester with intensive readings, work and reflections, the conclusion of the thesis is finally derived and the authors are partly surprised by the conclusion. Before starting the empirical research the authors expected to get answers suggesting other features and conclusions from the Swedish private bankers than the theory states. This has not happened and the empirical material goes surprisingly often in line with the theoretical suggestions.

During the thesis the authors have reflected if private bankers use some sort of templates when advising their customers and if these templates would help large institutions to derive a similar advice if a individual went to several private bankers within in the same institution. Further the authors made a remark on how the two respondents from different institutions in some cases had different asset allocation for the same individual.

Further the authors have discussed if the result would have been lot different with a higher response rate. It would have probably meant a higher difference between the answers when it comes to asset allocation, but it does not mean that the result would have been lot different. It has also been discussed what the implications would have been with a higher diversification among the respondents. The authors believe that institutions that only has private banking as a profession would have in a larger extent acknowledged those features that cur-
rent respondents only remarked on or neglected, and adjusted the portfolios, however this is only speculation.

Last, the authors reflected how well the private bankers would have handled the cases if taxes were not neglected. The cases would have been structured in a different way to include taxes and would make the cases more complex.

7.3 Further studies

During the work with the thesis a few questions has been raised; have features been foreseen since they do not have any implications on the asset allocation or have the private banker not detected them?

It also seems to exist a stronger devotion to rely on time horizon and risk profile then other features when constructing the clients portfolio, is it because of ignorance of the other features, or do actually time horizon and risk profile have a larger importance?

Another reflection is how the analysis of the customer features is made practically. Do it exist a systematically and standardised method for each firm or do each individual private banker develop an own method?

This thesis has laid a base for a quantitative study to be done. A quantitative study is important to do since it has the possibility to generalize and to check if the result of this thesis can be generalized to a larger population. The authors think that all this questions is important to make future studies on. This since they all will have implications for the future profession of private banking.
8 Reference


Chen, P. (Feb. 1 2006). The Human Capital Equation: The value of a person's future labour income is key to managing risk. The trick is to find the right balance with his or her financial assets. *On Wall Street*, p.1


Appendix 1 Case 1 Swedish

Case 1 Jay Graw


Plats för förslag:
Appendix 2 Case 2 Swedish
Case 2 Johan Ungtrupp


Plats för förslag:

Plats för förslag:
Appendix 4 Case 4 Swedish

Case 4 Calle Eriksson


Plats för förslag:
Appendix 5 Case 1 English
Case 1 Jay Graw

I work as boss for American Tools Sweden; the same company that ones took made me move to Sweden 20 years ago. The company has always done well and business cycles does not imply on our business too much. I am happy with my work and my salary on 50 000 SEK a month. To move from America was hard since I am the only sun and my mother is still alive. It is particular hard to live abroad when my mama is starting to get sick. The doctors home in Big Spring says that she have to be placed in an nursing home within three to ten years and since she do not have that kind of money I will to pay it. I do not have a family of my own and when I ones retire at 65 I want to move back to Big Spring where I ones was born. I have just sold my Mac Gregor 26X sailing boat and I went to place the 3500 000 SEK in a portfolio by You. But Sweden is just not bad, my pension choose (PPM) has been very good to me. I have been aggressively in my saving with high return and high return and it have paid-off. I am also happy with my apartment. It have moved up quite a bit since I bought it, and if I would sell it now I probably would get 2 500 000 SEK for it, not bad at all. And the best thing with the apartment is that I do not have any debt on it now, which is feeling really nice. I think that 3 000 each month is a reasonable sum for me to invest in the portfolio. It feels a little bit odd to think about retirement when you are just 42.

Place to make notes:
Hi, a short while ago I received 100 000 SEK from my aunt and I am planning to save them, maybe to when I get old and retire. Right now it feels like I want to work until I become 75. We will see how things turn out, I am just 25 now. But it is inspiring to work, especially when you run your own firm. I have my own advertisement business. It is hard work and the competition is killing, you have to work as an ant. Right now I am building up the business and getting my own base of customers and some project I undertake I am actually losing money on. But things will change, the happy customers will bring more business and soon you have more orders than you have time. Since I run my own business I am my own boss and I can work how much or how little I want. It all depends on how much work I have and how much I want to work. Beside the 100 000 SEK I will try to save 300 SEK each month. Beside that is not much going on. My girlfriend and I live in our rented apartment. I think it is too big but she says the flat will be perfect when we get a child within 3-8 years.

Place to make notes:
Appendix 7 Case 3 English

Case 3 Anders Övernäs

I am 32 years old and I have been married for the last five years. Together with my wife I have a little girl that just has turned one. My parents have sold their house and that is why I am here, my parents donated me 150 000 SEK. Beside the money from my parents I have landed to contribute 500 SEK each month to the savings portfolio I am hoping you can help me create. Beside the money dad gave me a stake in an oil well, but I am planning to spend the cash the oil business generate. It is hard to know though how much cash the oil will generate since the price is dependent upon the world price is. The revenues is high now when the price is high but the generated cash flow can be between 5 000 SEK and 10 000 SEK each mount. Beside that you never know how long it is possible to mind oil from an oil well. Dad thinks it is about eight years but it could be longer or shorter. The money from the oil is however a nice think to ad to my salary from my job at the bank. My salary would probably not be sufficient to buy all the stuff we need and to payoff our mortgage on our new home.

Place to make notes:
Appendix 8 Case 4 English

Case 4 Calle Eriksson

I sold my firm some time ago. The money have just been invested to an ordinary bank account, but I have understood I have to take me time to come to you and invested in a better way. An ordinary bank account do not yield so much not even if you got five millions SEK there. Now I work as a consult in the same type of business where I had my company. I call this holiday even if I work ordinary time, but it is much less than when I had my firm. I make a reasonably amount of money ass well, I can live a good life of my 40 000 SEK in salary. I have worked hard but I have also had luck sometimes. Two months ago I won ten thousand SEK each month in twenty-five years, not bad. I have an daughter but she is grown now and we live in the same building but in two different flats. When you start to get as old as I am you and have to years to retirement, you start to wonder what you should do with the money you have gathered over the years. I mean you mostly need money when you are young but then you do not have any and when you are old you have more than you need. I think I want to donate some money to Green Peace when I die.

Place to make notes: