

# INVESTING FOR RETIREMENT II: MODELLING YOUR ASSETS

## *Are Financial Planners Stuck in the 1970s?*

*Matt Kadnar, James Montier, and Martin Tarlie* | July 27, 2022

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*For the sake of their clients,  
it is high time financial  
planners updated their beliefs,  
assumptions, and processes.*

- JAMES MONTIER

### OVERVIEW

In this webcast, James Montier and Martin Tarlie discussed the genesis of their latest White Paper, “[Investing for Retirement II: Modelling Your Assets – Are Financial Planners Stuck in the 1970s?](#)” We believe an approach to retirement investing that better models and understands the ways in which financial markets differ from the outdated academic assumptions of market efficiency and random walks will result in substantially superior portfolios.

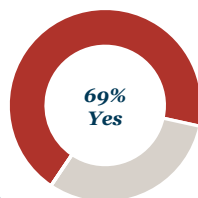
### KEY POINTS

- Most out of the box Monte Carlo simulation engines assume asset prices follow a random walk, contrary to current understanding and evidence.

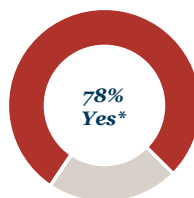
### ~200 RESPONSES TO INVITATION SURVEY

*95% response rate—thank you!*

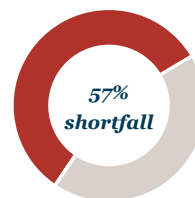
Do you use  
Monte Carlo  
Simulations?



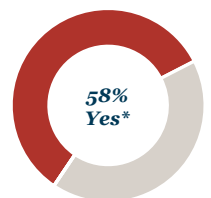
Do you have any  
concerns  
with the results?



What is the single  
biggest risk that your  
clients face?



Do you struggle aligning  
your client's financial  
plans with their  
investment portfolio?



\*Some form of yes.

- This leads to simulations that underestimate long-run bond volatility and overestimate long-run stock volatility, which in turn leads to bond-heavy portfolios and a distorted view of long-run outcomes.
- Return generating models that account for valuations are consistent with historical observations.



**Matt Kadnar**

Mr. Kadnar is a member of GMO's Asset Allocation team. Prior to joining GMO in 2004, he was an investment specialist and consultant relations

manager at Putnam Investments. Previously, he served as in-house counsel for LPL Financial Services and as a senior associate at Melick & Porter, LLP. Mr. Kadnar has a B.S. from Boston College majoring in Finance and Philosophy and a J.D. from St. Louis University School of Law. He is a CFA charterholder.



**James Montier**

Mr. Montier is a member of GMO's Asset Allocation team. Prior to joining GMO in 2009, he was co-head of Global Strategy at Société Générale. Mr. Montier is the author

of several books including "Behavioural Investing: A Practitioner's Guide to Applying Behavioural Finance"; "Value Investing: Tools and Techniques for Intelligent Investment"; and "The Little Book of Behavioural Investing." Mr. Montier is a visiting fellow at the University of Durham and a fellow of the Royal Society of Arts. He holds a B.A. in Economics from Portsmouth University and an M.Sc. in Economics from Warwick University.



**Martin Tarlie**

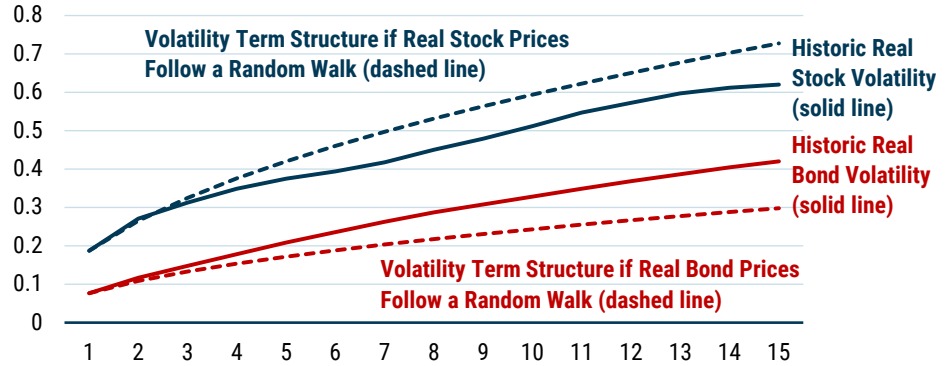
Dr. Tarlie is a member of GMO's Asset Allocation team and the Head of Nebo. Prior to re-joining GMO in 2018, he was a managing director at QMA.

He previously worked on GMO's Global Equity team from 2007 to 2014. Prior to that he worked at Breakwater Trading and at Marlin Capital Corp as a fundamental equity analyst and the director of research. Dr. Tarlie earned his B.S. in Physics from the University of Michigan, his Ph.D. in Theoretical Condensed Matter Physics from the University of Illinois at Urbana-Champaign, and his MBA from the University of Chicago. He was also a Postdoctoral Research Fellow at the James Franck Institute at the University of Chicago and is a CFA charterholder.

- Combining these return generating models with a new definition of risk – not as volatility – but as ‘not having the money you need when you need it’ lowers the probability of ruin materially (see [www.nebo-gmo.com](http://www.nebo-gmo.com) for more details).

DO YOUR ASSUMPTIONS CAPTURE THE KEY ELEMENTS OF REALITY?

*All models are an abstraction, a map on a scale of 1:1 is no use to anyone*



Source: FRED, GMO

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- [Investing for Retirement: The Defined Contribution Challenge \(gmo.com\)](#)
- [Rent Trust \(Build a strategic glidepath\) - Case Study](#)

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