The Math Behind the "Comfort Zone®"

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Learn how the "Comfort Zone" in GDX360® is calculated along with some helpful terminology and descriptions to give you more confidence when discussing it with clients or answering their detailed questions.

What is the Comfort Zone (CZ)?

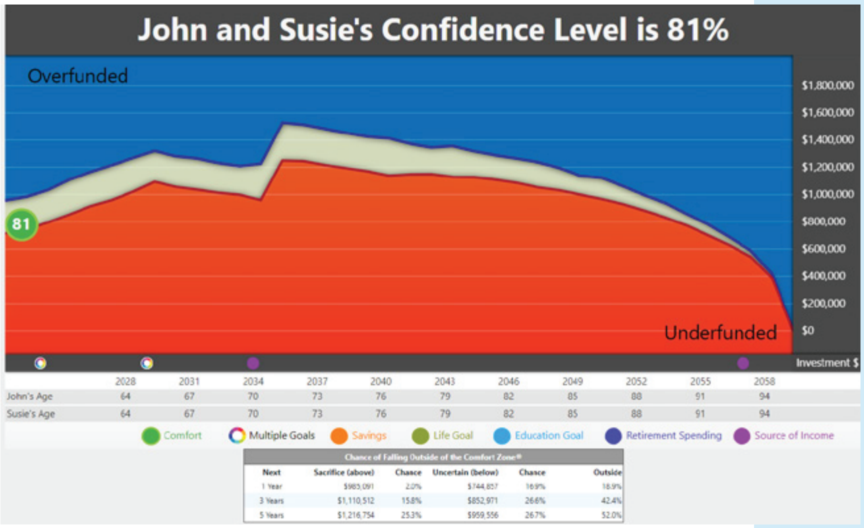
When we're discussing the CZ, we're talking about two different things. First, we're describing it as a score or confidence level. Second, we're talking about it as a range between 75% and 90% confidence. 75% confidence is consistent with a 30-year annualized return of 7.5% for stocks. In about 25% of all 30-year periods since 1871 have stocks produced a lower return. Since 1926, a 75% confidence score is consistent with experiencing returns equal to the worst 30-year period in history (sequentially from 1928-1957). A recommendation within the CZ should provide you with confidence that your client can reach their goals, even if market performance is poor. Conversely, a score of 95% indicates a confidence level where client goals are exceeded in all but the lowest 5% of simulated returns and would even survive a great depression average return.

How does it change?

A client's confidence score will change every time there is a change in portfolio values. If the "show history" is selected, the CZ chart will show a black line moving through the CZ, tracking the client's portfolio changes over time. The CZ itself describes the range of assets required to fund a client's goals over their lifetime and the CZ itself will change, moving up for an increase in goals and down for a decrease. Between these two, a client can see both how their account values changed over time and more importantly, when they adjusted their goals to accommodate those changes.

What does it mean?

To help clients better understand what the comfort score means, here are some new terms to use in these conversations. Typically, advisors characterize a score of 83 as an 83% probability success and a 17% probability of failure. This is grossly misleading since we know that a client's plan will rarely fail but will frequently need to be adjusted. When I'm describing what a score of 83 means, I characterize it as an 83% probability of excess (finishing above a client's legacy goal) and a 17% probability of adjustment (meaning the chance a client might need to adjust their plan over time).



Chance of Falling Outside of the Comfort Zone®

Next	Sacrifice (above)	Chance	Uncertain (below)	Chance	Outside
1 Year	$985,091	2.0%	$744,857	16.9%	18.9%
3 Years	$1,110,512	15.8%	$852,971	26.6%	42.4%
5 Years	$1,216,754	25.3%	$959,556	26.7%	52.0%

The chart at the bottom of the Comfort Zone page in GDX360 is extremely helpful in this regard since it links those probabilities to a 1-, 3- and 5-year time frame. To put it simply, a client in the middle of the CZ would become over or underfunded with a 1.5 standard deviation move in either direction based on their targeted allocation. This range defines the top and bottom of the CZ on the Comfort Zone page. This calculation is unique among all current planning tools and is a critical way advisors can justify an ongoing value for providing "Wealthcare as a Service."

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