

NEEDS-BASED ALLOCATION

A New Platform for Portfolio Construction – One Year Later

Martin Tarlie | November 2021

OVERVIEW

GMO has developed a platform – dubbed “NEBO” – that melds financial planning and asset management. NEBO is built on our Needs-Based Allocation framework, which redefines risk not as volatility but as “not having what you need, when you need it.” Over the past year, we have had the good fortune to work with a handful of innovative financial advisors as design partners, achieving significant usage milestones along the way. At the 2021 GMO Fall Conference, Martin Tarlie demonstrated how NEBO helps advisory firms generate better portfolios for their clients.

You may access the 2021 GMO Conference recordings [here](#).

KEY POINTS

- **Needs-Based Allocation is a new paradigm for portfolio construction.** The multi-period shortfall optimization generates target portfolios by determining optimal allocations of the single asset class building blocks, uniquely accounting for the client’s needs and circumstances – what they need and when they need it – and aligning those needs with their portfolios.
- **NEBO is a platform that melds financial planning and asset management.** We view it as a uniquely custom CIO dashboard and an Investment Policy Statement enhancer. The platform embeds GMO Asset Allocation insights and expertise and is built on almost a decade of deep research to solve the problem of portfolio construction. More broadly, NEBO can be thought of as the cockpit controls that the CIO/PM uses to fly their portfolio construction plane, and as the platform that aligns client portfolios in a way that better balances long-term wealth accumulation versus short-term loss aversion.
- **NEBO enhances human intelligence.** Our early users have a strong belief that NEBO helps them make better decisions, in part by providing an interactive platform that allows them to answer the fundamental question “what do I need to believe about the markets and my client in order to own this portfolio?” This layered decision-making process helps advisors find the right balance between the art and science of portfolio management – increasing their confidence and decreasing their fear, uncertainty, and doubt.
- **NEBO generates better portfolios for your clients.** Our research suggests that the combined direct benefits, when measured in annual return units over a full market cycle, are approximately 150-250 basis points per annum. Our research is consistent with numerous studies estimating the economic benefits of (portfolio-related) financial advice, including Morningstar Gamma, Vanguard Advisor Alpha, and Envestnet Capital Sigma.



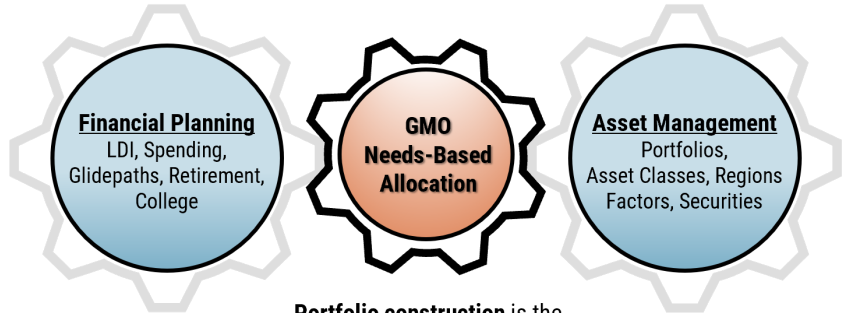
Martin Tarlie

Dr. Tarlie is a member of GMO's Asset Allocation team. 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.

FINANCIAL PLANNING & ASSET MANAGEMENT

Needs-Based Allocation melds financial planning and asset management



Portfolio construction is the "crucial moment of action."

If you don't get it right, then nothing else matters.

Disclaimer

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