HOW TO FIND A GOOD INVESTMENT MANAGER

Choosing an investment manager can be a risky business. James Day, from Peritus Investment Consultancy, provides some useful hints to help you make the most of your investments by choosing a good manager

We devote our lives to amassing wealth. The minute we achieve this, it seems that managing these assets becomes a chore.

As wealth consultants, we are sometimes asked to act as an expert witness to support claims where a client has lost a large part of their wealth due to unfortunate investment circumstances. Much can be done, however, to avoid the many pitfalls that await investors.

When we review investment managers, there are many common themes and signals that help our selection process.

Know yourself

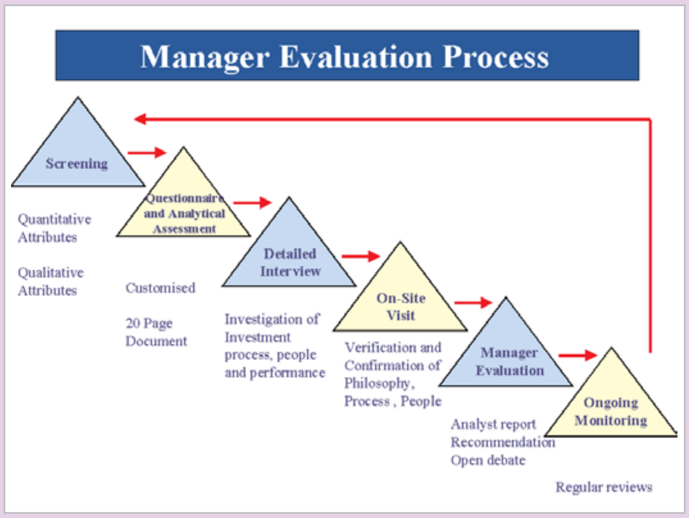
Like going to the doctor, explaining only some of your symptoms will result in you being given the wrong medication. Be as honest about your circumstances as you can with your managers. Be realistic about your inflation adjusted after tax returns, as well as how much you are prepared to lose. By spending time discussing your needs, investment managers will start to understand your goals.

Where to begin

List and prioritise what you expect from your managers, as few companies will satisfy all of your requirements. For example:

- return
- process
- reporting
- service
- fees
- security

Companies have a wide variety of products to offer. Specialists or generalists have their own range of services, so be aware of the different asset classes and styles of management. Most will manage equities, bonds and cash but few will include property, private equity, hedge funds and structured products. Ask about the advantages and disadvantages of each approach.



Return

'If it seems too good to be true, it probably is' would fairly describe how clients often look at making gains with no losses. Portfolios are usually managed in two main ways:

Relative Return: assets are allocated relative to a benchmark. It is important to understand what the benchmark is, how they performed over at least the last five years and how they will deviate from the weightings of the benchmark. Greater deviation means more freedom, less index tracking but sometimes more risk.

Absolute Return: a manager endeavours to make positive returns with little reference to a particular benchmark or economic cycle. They might actively move from cash to bonds to equities, or they could invest in 'alternative investments' such as hedge funds, which carry different risks.

A manager's performance should be reviewed over at least five years, ideally quarterly, after fees and against other managers with identical benchmarks. Generally, less than 10% of managers exceed their benchmark. If someone performs well, it is important to find out how they achieved their results.

Fees

There are numerous fee types ranging from relatively rare but attractive performance fees to those outlined below:

All In Fees: commission and custody within one management fee.
Fee and Commission: often a lower management fee with transaction charges.
Commission Only: usually higher transaction charges.

All in fees are attractive where portfolio turnover is high. Most mutual funds have front end charges that pay annual kick backs, which should be rebated to your account.

Fees can always be negotiated, but good performance often commands higher fees. In our annual survey of fees across a wide range of countries and styles, we have seen total fees for a £2m portfolio varying from 0.5% to 3.8%.

How is your money managed?

Ask your manger to explain how they would manage your money and see if they do anything different to give them an edge. Some areas to look out for are:

Team: size and staff turnover, experience and remuneration.
Technology: tools used for analysis, modelling and risk management.
Research: internally or externally generated; how do they choose stocks?
Process: do they explain how their process differs from their competitors?
Risk Management: attitude to risk and loss management.

Security

In these days of well-regulated countries, the risk of default should be less, but look out for:

- professional indemnity insurance
- credit ratings
- the size of the institution
- team size
- regulatory jurisdiction
- risk management practices.

There is no guarantee that large firms will offer greater protection, but they should have deeper pockets. Small firms often have greater investment freedoms, and this is the trade off you need to make. If you can afford it, invest with more than one manager to diversify risk.

Service

Poor service carries many costs. Ask for examples of reporting and enquire how often you will be kept informed. Ask friends or professionals who are familiar with the firms you are reviewing to provide feedback.

Better results

If you are looking for peace of mind that your hard earned money is being well managed, it is worth the time and effort to find the right investment managers for your needs.

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