FINANCIAL POST

Saturday, April 10, 2010

A new kind of money coach

Michael Nairne, Serious Money

I was chatting recently with a successful entrepreneur about his approach to investing. "You know what I hate the most?" he asked. "Every month or so, I sit down on a weekend and go through the reams of statements I receive from my various money managers and brokers. If I don't do it, I feel like I'm negligent, but when I do it, I'm not sure what I should be looking for."

Sound familiar?

Most affluent investors have built their wealth slowly over decades. Sensibly, they are concerned about diversification but practically speaking, the ad hoc decisions they have made over the years often leave them with a hodgepodge of investments and managers.

Instinctively, some realize they have recruited a team, but one without a coach or a game plan. They don't know if their team is working well together or beating the competition.

There is a way out of this thicket. Today, there are independent discretionary portfolio managers who assist affluent investors in both investment planning and the selection and monitoring of investment managers. This type of portfolio manager is really "a manager of managers," a very different role from the traditional investment manager who picks sticks and bonds. Although new to Canada, this is the fastest type of advisory business in the United States.

When I worked in Los Angeles, I found investors liked a transparent, fee-based approach -- no worries about commission-based motives. The vast choice in managers was appealing, as was the discretionary nature of the service -- no pesky phone calls to get approval for every investment decision. Independence was important, while consolidated reporting let investors say goodbye to the crush of multiple account statements.

But what really makes this process come together is the investor's own customized investment plan. Called an investment policy statement (IPS), this written document is essentially the strategic game plan for the family's investments. It sets out the parameters that govern how the money is to be managed.

Like all good plans, an IPS starts with a statement of the investor's objectives. Clarity is critical here--fuzzy goals lead to misdirected plans. Wherever possible, goals should be expressed as numbers. A famous saying in Japanese quality control states "a goal without a number is just a slogan." A retirement goal only takes on meaning, for example, if a time frame is attached to it.

A good IPS will delve into the investor's risk profile. Correctly gauging the ability to tolerate losses in inevitable market mayhem is critical.

Defining the asset mix that fits the investor's risk profile is another central component of an IPS. More sophisticated IPSs will actually define the probability of incurring losses of various magnitudes over different time frames. Investors get to mull over their likely reaction to the red ink they might be staring at one day. Think of it as a fire drill for an investor's capital; the goal is to avoid panic when the heat is on.

A proper IPS will also spell out rebalancing guidelines, manager selection criteria and performance benchmarks, the frequency of reports and policy reviews.

Today, the new breed of portfolio manager gives affluent investors a coach and a game plan for their capital and keeps them briefed on how their team is performing, leaving weekends for the family, maybe even a little golf.

-Michael Nairne, CFP, RFP, CFA, is the president of Tacita Capital Inc., a private family office and investment counselling firm in Toronto.