HOW TO CHOOSE A MONEY MANAGER

by Barry James, CFA, CIC

You've searched for financial managers online. You've read magazines and compared recommendations from national groups. You've talked with your family, friends, and colleagues. You've narrowed the list of financial advisors to those with the right balance of solid performance and personal attention. Now, how can you tell if your soon-to-be partners in protecting your bright financial future are trustworthy?

Simple: find out how they rate on "the four P's" — philosophy, process, people, and performance.

Philosophy: This forms the basis of all investment decisions.

- What is their philosophy of investing? Does it match yours? Just like a marriage, if it doesn't fit, it will fail.
- Does it make sense? Is it logical? Or is it complex and hard to follow?
- Can you stay with this philosophy a minimum of five years?

Process: If the decision-making and implementation process for putting the philosophy into action isn't well thought out, the firm may have problems.

- Does the process fit the company's philosophy?
- Does it make sense, or is it too complex to follow?
- Can it be implemented on a repeated basis, producing consistent results?

People: Look for a company that brings experience, background, success, and ethics to the table.

- Do they inspire confidence and trust? Do they have a passion for the work?
- Do they invest in their own funds?
- What kind of stability exists in the work force? How does the company keep its top people?
- Are there any legal or ethical issues with the people or firm?

Performance: Look at how the company has followed its philosophy and process over time. Avoid those who change with the latest trends in the market.

- Are the numbers reasonable? Are they constructed from just one account or from a group of accounts?
- Are the numbers audited?
- Can you verify the money manager's claims of performance using public records, including records of the funds they manage?
- Do they provide explanations of better- or worse-than-expected returns?

Managing Your Money Manager

Don't take a hands-off approach to your portfolio. And don't let your money management team off the hook with an annual statement comparing returns to market indexes or other money managers.

The bottom line is, you are responsible for your investments.

- Communicate your financial goals, risk comfort level, and preferred strategy to your money managers. Make sure you're on the same page before committing to any investment changes.
- At least once a quarter, check your investments' performance. If concerned, talk with your managers and compare their decisions with the investing strategy you have in place.
- Make sure your philosophy is being maintained and your investments are producing the results you planned for, even if it means changing managers.

Some investors check performance so often they drive themselves to distraction because of the volatility of the market. Remember: the point of having a solid investment philosophy and strategy is to let you and your investment team manage your money, not let your money manage you.

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