

Selecting the Right Money Manager



by Keith A. Rivera

Selecting the right money manager and the surveillance of your assets may be the most important task your corporation can do.

Professional cash management has become more complex with the introduction of new financial products and the ever changing world we live in. To participate successfully in the volatile new world requires extensive knowledge, experience and time.

Professional investment managers can provide all this. But with over 4,000 money managers registered, how do you find the right one? How do you know that the one you're using is doing a good job?

When should you dismiss your money manager when he or she is not doing a good job?

Candidate Selection

Cash managers can be selected for evaluation from several sources (although not limited to). The following are some sources that I recommend you to consult.

SEI is the single largest independent data base for investment performance analysis in the country. The universe of managers exceeds 5,300. This includes almost every Bank Trust Investment Manager, Insurance Company and Mutual Fund in the country. All information is independently gathered and checked for its accuracy off actual accounts.

Their performance evaluations are categorized by certain investment styles. This allows comparisons of managers relative to the same goals and styles.

CDA Investment Technologies

is also a well known supplier of performance measurement data to corporations.

"Word-of-Mouth" recommendations can be an excellent source. If you know of other corporations that are happy with their money manager then contact that person. However, make sure that she or he has been with them for awhile.

An Investment Advisor that targets its services to corporations who want a professional money manager can also be a good source. A professional investment consultant will help the corporation select a money manager to appropriately match your personalities, objectives, and requirements. They will also help the corporation to monitor their performance.

Performance results are perhaps the most commonly used criterion to determine manager selection. But past performance alone is not a prediction of future results. Money managers differ significantly in investment style, capabilities, size, personalities and performance records. In this light, the case should be made that manager evaluation must extend beyond performance measurement history. That is why reputation or "word of mouth" is a consideration.

Interviewing a Money Manager

It is important that you feel comfortable with the money manager that you select and thus I recommend that you meet with your candidate face to face. Meeting your potential manager is really the only way to know if personalities and investment objectives match. It is also of greater importance to ask your prospective money manager these ten questions:

- How is your firm organized? How are policies and strategies set?

- Who are the key decision makers? Who manages the portfolio? Who performs the firm's administrative tasks?

- Have the manager describe their decision process. How are portfolios managed, by individuals or by teams?

- Inquire about the firm's in-

vestment philosophy, disciplines, and approach. In other words, how do they manage money? Are they market timers, asset allocators, stock pickers, interest rate forecasters, long or short term investors, etc.? How do they structure portfolios and pick issues? Are all accounts managed the same and generate like results?

- Explain the corporation's financial objectives and ask the manager how they expect to meet those goals.

- Ask who will manage the corporation's contact to discuss the portfolio's activity and/or performance.

- Request complete performance results including rates for individual years, various market cycles, and for longer three, five, and ten year periods. Have the manager discuss how they perform in up and down markets. Have the advisor explain what account(s) their results represent. Do results reflect a composite of all accounts? Only EST accounts, etc.? Are fees or commissions netted out of reported results?

- How are clients serviced? By telephone? Written reports and statements? Review meetings? How often? By whom?

- What is the firm's fee schedule?

- Why does the firm feel that they will continue to generate good results in the future?

Here are some of the reasons why you ask these questions:

1. Organization. The primary motivation for studying the history and background of an investment management organization is to understand the environment in which results are achieved.

2. People. It is important to feel comfortable that a firm has a quality investment staff. Sufficient depth of management means that quality continues even if some people are away or even if personnel turnover occurs.

3. Investment Process. A client has to understand how their money is to be managed. A manager should have definable investment philosophy and a logical and intuitively viable investment approach which makes sense. It is of

critical importance to understand an advisor's style because the manager's strategy may be the key determinant of performance.

4. Performance. Ask to see performance results for different time periods including annual result, and for three, five and ten year periods. It is important to see how an advisor performed in up and down markets and over various market cycles.

5. Administration and Client Servicing. Managers vary in their marketing and servicing approaches as do client preferences.

In general, managers provide at least quarterly asset statements and performance updates. Some rely heavily on telephone contact or client letters while others wait for clients to call. Others still hold review meetings regularly while some hold meetings only by request. The key is to determine what level of contact your corporation expects and be sure that the managers under consideration can meet those expectations.

Communication and Administrative Skills

You should look for a money manager that listens to your goals and explains how their firm's investment strategies can help you meet those goals. A manager should also be able to furnish timely reports on your investment.

The Long Term Money Manager

Many Corporations have set up long term corporate goals. They are looking to provide wealth for future as well as present shareholders. They are concerned about the next generation as well as themselves. They have set up a permanent fund. If this is your goal then select a manager that cares about your grandchildren as well as yourself.

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