

# 2 SIMPLE RULES TO FOLLOW WHEN SELECTING AN INVESTMENT MANAGER IN 2011

## 1: Always ensure that your manager's goals are in line with your investing goals.

If your financial advisor does not utilize independent investment research, you may not be benefiting as much from their advice as you think.

### ► **KEY POINT:**

*When you hire a manager, make sure their compensation structure is directly tied to your goals.*

Why is access to independent investment research so important? We have all heard stories about brokers and analysts who have acted in a questionable fashion when it comes to providing investment advice. In 2000, these Wall Street scandals were so rampant that the Securities and Exchange Commission determined that investment research was too heavily biased and required the major brokerage firms to provide independent research to individual investors.

The primary revenue source is always going to be the top priority of any company, and smaller revenue generators are simply offshoots of the larger and more successful divisions. An example would be a firm who is world renowned for their investment banking practices. Investment products from this area of the business are typically what is offered down the chain and end up in the individual investor's portfolio. Is this investment truly the right one for you? Possibly not, since the investment bank can make recommendations based on inventory and not always by a carefully derived investment process. Fee based money managers grow their business and profit only when you, the client, make money. Not having external influences over stock and bond selection ensures that your interests stay inline with your manager's interests.



**When your manager's goals are in-line with your own, the likelihood of investment success is much greater.**

## 2: Make sure you understand, and feel comfortable with, the philosophy behind your manager's investing model.

As complex and brilliant as an investment manager's investing model can be, your advisor should still be able to explain the fundamental philosophy to you in terms you can understand. If you find yourself confused, or wary of their investing model, then it is time to speak up. If something about this manager does not feel quite right, trust your instincts and ask! It should be a philosophy that is well rounded and has a long track record of success in all market environments. Stock picking based on gut instincts does not constitute a well thought out strategy. Find a philosophy that relies on an unemotional process. Just like any business, there is no room for emotional decisions in the management of your hard earned assets.

Even though a model makes sense, it may also carry too much risk. Having a long-term proven track record is important when evaluating the investing model of your advisor, and in determining how much risk you are taking with your portfolio by working with this manager. Risk to your portfolio will also increase if the manager has a limited number of stocks selected for their investing model. Regardless if your manager "caught the tail end of Google" or not, getting lucky with a couple of winner stocks is not a long-term investing model. A good rule of thumb to always follow is of course. "if it sounds too good to be true, it probably is".