The 3 Process components

The following areas represent those most in need of consideration before selecting a wealth manager.

1. **The client relationship;** the first component relates to communication and reporting, education and risk assessment and essentially governs the client relationship.

2. **Portfolio construction, planning & management expertise and disciplines;** the second area of expertise relates to asset management expertise needed to construct plan and manage assets to meet financial needs over time.

3. **Business process, corporate structure and systems;** the third area relates to how all the components of wealth management are brought together into a service and business process. At the heart of this third component lies the systems that integrate all components.

Business process, corporate structure and systems

Many organisations that say they "personalise portfolios to financial needs over time and personal risk preferences", do not actually posses the systems that relate structure to personal financial needs or indeed, the business processes and the service structures that can deliver such a service..

If an organisation is attempting to provide personalised portfolio management to its clients but does not have the systems to deliver asset management or manage the complex relationships, then it may be operating inefficiently in a number of areas.

If an organisation depends on product sales or transactions for its returns, then it may not have the business process or service focus to actually deliver personalised wealth and asset management to a level required to meet the needs of the individual investor.

An organisation may have great asset management expertise but if it cannot deliver this to its private clients, this expertise is not going to be of benefit to the client.

Worse still, is the situation where an organisation uses third party software and third party investment recommendations, but does not possess the necessary expertise and knowledge to manage and apply them.

There are many financial institutions whose revenue from their so called wealth management services actually comes from product sales and transactions. In this case, advice cannot be the most important component of the process. Since advice is the most important and valuable component of wealth and asset management services (most of the actual management is based on the relationship between asset risk and return and liabilities over time), the conclusion is not a difficult one to draw.

Many organisations have large numbers of advisors each responsible for the asset allocation, security selection and portfolio management. In these circumstances how can you be sure that you are getting quality and efficiency in the service you are receiving?

Organisations that deliver asset management to small numbers of very large clients have a different organisational and structural requirement to an organisation which is providing asset and wealth management services for a large number of clients.

Organisations focussed on selling products and transactions have different structures and business processes than ones focussed on managing needs and assets.

Many financial institutions separate asset management from advisory functions while most financial software does not integrate liability (income and capital needs) management with asset management. As a result, prime asset management expertise is often alienated from an organisation's investment planning services.

Integrated systems and business processes relate advice and recommendations to one set of needs and resources, lowering costs and increasing total return for the client.

To assess whether you are getting effective asset management, you need to understand the business, the service process and the systems that drive the service.

If you appreciate that a wealth management system should actually replicate a company's business and service process, a system can actually tell you a lot about the company's values, structure, expertise and service quality.

Portfolio construction, planning and management

If your advisor does not have the necessary investment discipline and expertise to construct, plan and manage your portfolio, or the resources needed to fund research and development of strategy, it is unlikely that your portfolio will be properly managed.

Specific asset management expertise does not always translate into private client portfolio management expertise.

A manager of a mutual fund may be an expert at stock selection and in managing a focussed portfolio of stocks, but they may not be versed in the management of assets to meet financial needs. The two are distinct though related investment disciplines.

An organisation may possess excellent asset management expertise, is well resourced but its primary focus may not be on the management of financial needs as well as assets over time.

If an organisation is not managing the relationship between your assets and financial needs, who is?

And, if the portfolio is not structured around your needs, how is the person charged with this responsibility going to be able to execute this responsibility?

Key to managing the integration between the management of assets and financial needs over time is a portfolio structure and a discipline capable of managing these complex relationships. This is a specialised area.

Often the responsibility for the management of assets and needs is split between the portfolio manager and the financial planner/advisor.

In order for such a relationship to be effective, somebody with the necessary expertise needs to be in charge of the management of the overall relationship between assets and financial needs.

Great asset management can easily be undone with an inappropriate portfolio structure and ineffective long term planning.

Managing the long term relationship between assets and financial needs is a specialised area. Most of this expertise is concentrated in academia and in actuarial firms. Even the standard industry professional designations do not deal with this area of portfolio construction, planning and management.

The client advisor relationship

The client advisor relationship depends on the level and form of communication.

Client Communication

Client communication involves the giving of all the necessary information that will allow a portfolio to be structured, planned and managed to meet the stated objective as well as feedback to risk assessment, education, written/oral proposals and recommendations.

Advisor Communication

Advisor communication involves education about investment, their style of investment, their assessment of the client's attitudes to the various investment risks and degree of aversion to their investment style.

Effective Communication

Effective communication involves reporting in writing the reasons and rationale for the management of assets and financial needs at outset of the relationship and over time. The level and quality of advisor communication is a direct reflection of their expertise, ability, organisation and service objectives.

Relationship between service and communication

The narrower the service and asset management objective the lower the reporting requirement. Only effective communication will result in a portfolio appropriate to client needs, market conditions and to the numerous risk preferences that influence an investor's decision.

Risk Assessment, Key Weakness

Risk assessment is a key area of weakness within the financial services industry. Most risk assessment is ill suited to managing client expectations or in relating the client's investment preferences to those of the advisor.

In fact, much of the industry's risk assessment is based on a minimum standard designed to cover basic compliance requirements required to satisfy security regulations.

Education

As to the client's investment knowledge, many firms simply identify the client's existing investment knowledge and the client's attitude to risks based on that knowledge. This is insufficient to develop the necessary communication required to provide effective long term asset management.

Education is not a regulatory requirement.

The education many advisors give their clients is either limited or is comprised of "naïve" simple messages designed to assuage client concerns over risk and return and to deliver a product or portfolio solution.

It is important to understand that many financial advisors do not fully understand the theories or structures which they use to deliver your financial services, solutions and products.

There is in general a lack of critical analysis of accepted solutions. Most education is focussed on training individuals in the solutions of the financial services industry.

Actually questioning the theories and reassessing the basic facts of the problem are not part of today's professionals' education.

It is debatable whether today's financial service's qualifications actually teach advisors how to structure, plan and manage portfolios to meet financial needs over time.