Communication and Reporting

Good reporting is a good guide to the substance, structure and discipline of the wealth and asset management services provided.

Advanced reporting should also provide an integrated analysis of all financial needs as well as description of the personalised solution.

All investors looking to have their financial assets and needs managed should be looking for a comprehensive initial investment planning & asset management report, a semi/annual investment planning & asset management report and detailed analysis of portfolio performance and portfolio strategy.

Not all advisors provide them, some because they cannot, others because they can get away without it. Good reporting and education has many arguments against it within the industry. There is a belief that giving the investor too much information confuses them and delays the sales process. If you want to sell and sell quickly you simplify the message. This logic is obviously biased towards the interests of the industry.

You the investor actually need much more information than you are currently receiving to make the informed decisions that you need to be able to make.

The section of the website provides a guide to the basic information that a service's reporting should provide. The three main reports are as follows

- Initial investment planning & asset management report.
- Annual investment planning & asset management report.
- Performance analysis

For more detailed information on what the reports should do please see What Your Wealth Manager Be Doing in the "Is Your Money Being Managed Properly" section of the website.

Initial Investment Planning & Asset Management Report

An investment policy statement is not considered sufficient to satisfy the requirements of the initial investment planning report, the most important prerequisites of which are noted below.

- This should clearly state objectives, financial needs and existing assets.
- It should provide analysis of the ability of assets to meet financial needs over your lifetime (s), identify problems and provide meaningful analysis of objective alternatives.
- This lifetime analysis should be capable of providing an integrated assessment of all factors affecting wealth and asset management; estate planning, insurance and pensions planning.
- It should clearly assess the current portfolio allocation and structure and state reasons for both the recommended portfolio allocation and changes needed to initiate recommendations.

- It should explain how the portfolio will be managed over time, the objectives of each investment allocation and how it relates to your financial needs and risk preferences.

- It should clearly state the risk and return profile of portfolio and what you the investor (s) should expect in terms of its performance profile over time.

- It should provide style, risk/return and allocation information on each individual investment and a rationale for their inclusion.

- It should provide both a detailed and a simple explanation of strategy and risks in the market and the economy.

- Assumptions underlying all financial modelling should also be provided with an explanation.

Annual investment planning & asset management report.

- A simple statement of portfolio returns and a simple explanation of what happened to the market does not constitute an investment planning review.

- The review should restate and update your objectives and risk preferences.

- It should reassess the ability of assets to meet financial needs and assess affects of changes to financial needs.

- It should relate portfolio structure and performance to your financial needs and risk preferences.

- It should provide a short and a detailed analysis of investment strategy, reasons for sales/purchases or recommended sales and purchases and an assessment of current market and economic risks.

Portfolio performance and portfolio strategy

Far too many asset managers only give basic portfolio performance figures and a rudimentary explanation of what has happened in the market over the last few months.

A sign of a well organised and disciplined asset and wealth management service lies in their reporting and explanation of portfolio performance and, their explanation and understanding of their own strategy and how it affects you the individual.

Performance analysis should not just measure performance and the effects of transaction and management expenses on performance, but risk and how efficiently an organisation manages inflows to and outflows from the portfolio. We should be looking at total return as well as total costs. Selling an investment at the wrong time will cost an investor, but this cost will not often show up in conventional performance analysis. You can in fact hide a multitude of sins in performance numbers.

Ultimately performance analysis makes the manager accountable to you the investor. While many investors are not going to understand the detail, the fact that a manager has to justify what they have done and why is important to the investor.

The standards noted below represent the detailed analysis that a wealth manager needs to provide investors in addition to the simple statement of returns that many investors find adequate.

Good reporting = accountability.

What should an analysis of portfolio performance and strategy provide?

- It should provide an analysis of how well your portfolio has coped with risk in the market place.
- How volatile has the portfolio been relative to its asset allocation and the market index.
- Has the portfolio met its financial security objectives? Has the financial security provided by the portfolio been affected by market events? Has the risk management strategy been effective?
- It should provide you with the performance of the portfolio, both before and after asset management expenses and always after transaction charges.
- It should provide the performance of the equity component, the low risk component and the total portfolio. All decisions should be accountable.
- It should compare the performance of the components of your portfolio relative to their passive benchmarks which comprise them. Portfolio performance will have come from certain areas to which the portfolio is allocated. For example, smaller companies, Europe, Japan, Asia, Emerging markets, Technology. Such illustration will also serve to explain portfolio performance to the client.
- Performance also needs to be compared to the performance of the average active manager against which the advisor may compete and the broader passive market indexes, to which you could have invested without asset management expertise and the associated costs.
- Performance figures should be at least six monthly, and provide performance data for the last six months, the last year and the performance since inception relative to all appropriate benchmarks.
- The final and most important measure of performance is one that measures the benefits of a personally managed portfolio and the contribution of asset allocation, structure and planning to overall long term return. How a manager structures and manages the portfolio to deal with future inflows and future withdrawals can significantly impact on return.
- A properly structured portfolio will not need to sell investments to meet immediate financial needs. These should already be planned in advance. What this means is that highly valued and risky assets can be targeted for sale to meet future needs in advance of the need. It also means that if inflows are available at a certain point in time, these can be used strategically to meet needs without having to incur portfolio transaction costs. How well a manager manages this can be measured.
- A manager needs to provide a detailed analysis of current strategy and rationale for all actions with regard to each component of the portfolio; cash, fixed interest, international cash and fixed, currencies, corporate bonds, short and long term fixed term securities, the domestic market, growth and value, small, medium and large caps, sectors and the respective for all global markets in which allocations are made and or held.

Short term performance fixation

Investors need to beware of focusing on short term performance. Managers on the other hand need to explain their short term performance relative to the market. The only way this performance fixation can be addressed is via education, a clear explanation of investment discipline and strategy and its performance risks.

Assessing performance risk aversion and initial investment risk will go a long way to managing short term performance fixation.