Management of Total Assets and Total Financial Needs

The only way you can ensure the safe, efficient and cost effective management of your assets and financial needs over time is to have all assets and financial needs subject to a centrally managed structure.

The reason

The amount that you need in each asset, the income you need from each asset, the accessibility of each asset, the intended investment time frame of each asset, all relate to the size and timing of your financial needs over time. If all assets and all financial needs are not subject to a centrally managed structure you will find that there will be a mismatch between the risk and return profile of a portfolio and the planning, structure and management of a portfolio to meet your needs as they arise.

You cannot manage cash without central management

The amount of cash you hold is critical to the ability of your portfolio to meet your immediate financial needs without having to liquidate assets.

Within a properly managed portfolio, the amount of cash that you hold to meet your financial needs will be managed at all times and, at all times the amount of cash you need will be sufficient meet all planned outgoings.

Indeed, within a well managed portfolio, planning should also allow for variations from planned expenditure in the event emergencies.

In fact, the whole structure of the portfolio is managed around current and future cashflow needs, making cash probably the most important asset class. Manage cash badly and it impacts not only on the portfolio but on your financial security.

Why Cash is not often managed

Cash has not been the focus of much attention by the investment industry. For one, for those who depend on commissions for a return, it does not yield a sufficient return for the manager

Because the management of financial needs (financial planning) and the management of assets are quite often separate, the only rationale for cash within a portfolio is a liquidity buffer, a tactical reserve in lieu of equity or fixed interest transactions or a strategic allocation for managing risk and return.

Finally, without systems that relate asset allocation to financial needs there is no way of managing the individual's cash allocation.

Fixed interest and equity allocations also need to be managed.

Just as the amount of cash is important in meeting current needs, so is the management of other low risk assets that provide future income and capital. Because of this, the amount in fixed interest securities, the maturity of these securities and the amount invested in each is critical to the ability of assets to meet needs.

Likewise with equities, there is a relationship between the size and timing of your financial needs and the strategy, style and allocation of the portfolio.

But if you do not know all needs and all investments.....

But you cannot calculate any allocation without detailed information about current and future financial needs.

Even if you know the detailed financial information, if the distribution of all assets is not available, then there is no way you can structure a portfolio to meet needs and manage risk and return.

If you want to reduce costs, to manage financial needs, to make the management of risk and return more efficient, you need central management of assets and financial needs, which means they both have to be integrated into the one portfolio structure.

But who can you trust...

Most in the industry would prefer to manage as much of your money as they possibly can. But not everyone is capable of managing this responsibility or should even be given it. Many investors will therefore split their money between a number of different advisors, but this does not necessarily solve the problem. Someone needs to be in control of the overall structure to ensure that risk and return within the context of lifetime financial needs is successfully and safely managed.