

The TAMRIS Consultancy

In Search of the Truth

Second Opinions

“&”

Independent Structural Assessments

February 2006

*“If the structure of the house is not right,
who cares about the quality of the bricks!”*

CONTENTS

1	INTRODUCTION	3
2	THE NEED FOR AN INDEPENDENT ASSESSMENT	4
3	SECOND OPINIONS OR INDEPENDENT ASSESSMENTS	5
3.1	SECOND OPINIONS	6
3.1.1	The risks of a second opinion.....	6
3.2	MEAN VARIANCE OPTIMISERS AS OPINION/ASSESSMENT TOOLS	7
3.3	CORE PRINCIPLES OF PORTFOLIO CONSTRUCTION, PLANNING & MANAGEMENT	8
3.4	INDEPENDENT STRUCTURAL ASSESSMENT	9
3.4.1	Risks of an independent structural assessment.....	10
4	EXPERT, INDEPENDENT, OBJECTIVE, IMPARTIAL STRUCTURAL ASSESSMENTS	12
4.1	EXPERTISE	12
4.2	SECURITY SELECTION & ASSET ALLOCATION RECOMMENDATIONS	13
4.3	INDEPENDENT ASSESSMENTS AND INDUSTRY STANDARDS	13
4.4	INDEPENDENT CONSULTANTS AND CLIENT RELATIONSHIPS.....	14
5	THE RATIONALE FOR AN INDEPENDENT ASSESSMENT	15
5.1	SUITABILITY AND MINIMUM STANDARDS.....	15
5.2	MAIN AREAS OF STRUCTURAL & ORGANISATIONAL WEAKNESS	16
5.2.1	Secondary weaknesses	17
6	WOULD YOU BENEFIT FROM AN INDEPENDENT ASSESSMENT?	18
6.1	WARNING SIGNS	18
6.2	SECONDARY CONSIDERATIONS	18
6.3	ASSET & LIABILITY MANAGEMENT	19
6.4	FINANCIAL COSTS.....	19
6.5	THE VALUE OF AN INDEPENDENT STRUCTURAL ASSESSMENT	20
6.6	THE CONSULTANCY PROCESS	20
6.6.1	Step 1, Initial assessment or opinion	21
6.6.2	Step 2, Independent structural assessment.....	21
6.6.2.1	Client with existing wealth management arrangements	21
6.6.2.2	Client with no wealth management arrangements.....	21
6.6.3	Step 3 - Structural mandates.....	22
6.6.4	Step 4 - Manager Search & selection	23
6.6.5	Monitoring.....	23
6.6.6	Education.....	23
6.7	ASSET & LIABILITY MODELLING & MANAGEMENT	23
7	CONCLUSION.....	24

1 Introduction

The provision of “second opinions” seems to be growing in popularity. Many financial institutions will allow you to go online and compare your portfolio against an efficient portfolio designed by them.

Some will even go as far as showing you how much you would have made if you had invested in their own efficient portfolios; in some instances the performance data is simulated and not actual performance.

This type of “second opinion”, in particular, is a concern since it is provided by organisations using [tools that are inherently flawed](#) in their ability to provide portfolios personalised to actual financial needs as well as in their ability to manage the current risks of investments¹.

They are also flawed in that they do not properly assess the numerous other important components of a properly managed portfolio, but most importantly of all no investor should ever consider using a free “second opinion” offered by an organisation trying to sell a product.

But, investors looking for independent opinions need to be wary of pretty much any “opinion” proffered by an organisation that wants to manage your money or sell you an investment, at least without the ability to properly assess it. You really want an organisation with the relevant expertise that is independent of the need to manage your money, independent of the need to earn a return from transactions and product sales and that does not look to form any primary client/advisor relationship – See page 14, Independent consultants and client relationships section 4.4.

But, from where is this independent expertise to come?

From a financial services industry flawed in its ability to meet and protect the rights of the individual investor, an industry focussed on transactions as opposed to advice and, whose own portfolio construction, planning and management expertise is weak or weakly applied? No.

The type of organisation that is needed to provide an independent opinion is also one that should not be providing transaction and portfolio management services. This type of service is outside the remit of the regulators, at least within Ontario, which means that there is no control over the quality of such advice.

Irrespective, there are no rules, regulations or principles governing the provision of advice even within regulated investment activities – see the [TAMRIS Special Report; Suitability, Minimum Standards & Fiduciary Duty in the Canadian Financial Services Industry](#).

This does leave the individual investor with a dilemma.

How do I know whether my money is being managed properly? Where do I go to find out and, can I trust the advice and expertise I receive, or will it be more of the same?

The dilemma for the investor is of concern, especially if one considers it in the light of the investor that finds out that they have received bad advice, that their portfolio has not been managed properly and that their financial security has been irreparably damaged.

If an individual does not appreciate the importance of having their money properly managed they should speak to those who have tried to seek restitution. Investors need to understand that the security regulations, in Ontario in particular, do not enforce anything more than the suitability of the transaction and investors have minimal recourse other than expensive legal action and even this is not guaranteed success. [Caveat emptor – buyer beware!](#)

¹ Please see the following TAMRIS technical documents for further in depth analysis – Weakness of Modern Portfolio Theory, Liability Management Framework and Asset Liability Modelling.

2 The need for an independent assessment

Most private individuals do not possess the investment expertise needed to assess whether their advisor is doing the job properly. Most understandably, live in ignorance of the truth and rely on the knowledge and expertise of those in positions of trust to guide them.

Ignorance is nothing to be ashamed of; it is a lack of knowledge and a lack of experience in applying knowledge and, not a lack of intelligence or common sense.

Every financial advisor that provides advice in some shape or form occupies a position of trust. By virtue of this every individual trusts their financial advisor to some extent to provide appropriate financial advice. Few expect their advisors to do the impossible but everyone trusts them to do their best at all times.

A financial institution or the company that employs the financial advisor has a far greater responsibility. Most advisors on their own would not possess all the expertise and resources needed to properly manage your money. A financial services company should therefore possess all the expertise, all the resources and all the systems needed to provide proper management of wealth.

A good percentage of all individuals will at some point in time question whether their advisors are delivering. For those who end up seeking another opinion or assessment of their advice, most are sanguine enough to realise that getting another opinion may not always solve the problem.

Many “second opinions” can be self serving and too many opinions will lead to confusion. Also trust becomes a dilemma where you are receiving different opinions from different advisors. Bad “second opinions” can also lead to risks.

One of the problems associated with seeking another opinion is that it is often asked at the point where one is attempting to confirm or disprove concerns that have arisen, instead of making sure that everything is right before you go ahead.

If an industry lacks transparency over costs, value for money, services and service standards, then most investors will remain ignorant as to what they should expect from their wealth managers. Most individuals should take a pragmatic view of their advisor relationship and accept that there may be areas in which their advisor could and should do better.

The market for financial advice in Canada is not regulated. While the capital markets are well regulated in comparison, there are little or no guidelines governing the management of personal financial wealth.

Wealth management services are still relatively new and financial service firms are still developing techniques capable of managing the needs of their clients. We are moving, albeit slowly, from a transaction driven industry to an advice led service process. This transition will take more than just a change in marketing messages. For example, the industry still lacks a professional class of advisors that adhere strictly to high technical and ethical standards. Indeed, it takes more training to become a massage therapist than an investment advisor.

Given the importance of a properly managed portfolio and the [problems inherent in the financial services industry](#), access to a professional opinion on the management of your wealth is could be important to financial health in the absence of better standards and better regulation.

But this document will also point out that there is a significant difference between a “second opinion” provided by an advisor and an independent assessment of your wealth management arrangements and proposals prepared by an independent consultant.

Most “second opinions” are offered by other industry participants who will naturally offer competing instead of complementary or constructively critical views.

TAMRIS believes that in the first instance, an individual with limited investment knowledge needs an independent assessment of the advice they are being provided or proposed without prejudice and, not a “second opinion”. Is their money being managed properly? Does their advisor know what they are doing? What would their advisor need to do to improve accountability and the standard of service being provided?

An **independent assessment** of a wealth management relationship and a wealth manager’s proposals should start before any wealth management agreement has started.

An **independent assessment**, or what TAMRIS terms an independent structural assessment, prepared by an investment planning and asset management expert from an organisation independent of the financial services industry’s business objectives is different from a “second opinion” provided by an industry participant.

3 Second opinions or independent assessments

It is important that individuals understand the difference between an independent assessment and a “second opinion” and the providers of either one. While an experienced investor may only require a “second opinion” from another advisor or portfolio manager, most investors, with a few exceptions², would be better off starting with an **independent structural assessment**.

Objective of a second opinion

The objective of a “second opinion” should be to provide an alternative portfolio solution to the one currently being managed or proposed. It may provide an alternative methodology for managing assets, one that either meets the client’s needs and risk preferences more effectively or that adds value through superior management of risk and return.

Objective of an independent structural assessment

The objective of an **independent structural assessment** should be to assess the framework in which a portfolio is currently being managed or proposed and to clearly assess weaknesses that impact on the delivery of effective management of risk and return and financial needs.

The provider of an **independent structural assessment** should look at improving your existing relationship as just as an important objective as finding a better one. Indeed, a new relationship would need to provide significant benefits to the individual to justify a change of advisor. Providers of **independent structural assessment** should not be looking to sell you any services other than those which assess the framework in which assets and financial needs are managed or information and research which allow you to do the same.

While a second opinion should always have a structural framework, the objective of an “**independent structural assessment**” should be first and foremost to look for risks to the ability of assets to meet financial needs over time, whether it be naïve or under resourced asset management, poor portfolio construction, ineffective planning and clear mismanagement of both assets and financial needs as well as excessive costs (however incurred) and conflicts of interest.

Its second objective should be to provide guidance to the individual as to what should be done to right the weaknesses by providing clear structural guidelines to wealth managers as to what they should be doing and paying attention to in terms of portfolio structure planning and management, communication and accountability.

² Organisations that clearly demonstrate high standards of communication and education and that account fully for their decisions and that clearly and adequately explain how they manage money and what the client should expect will not need an independent assessment. It would be clear to the consultant reviewing the case that the firm in question has covered all the issues and a full structural assessment would not be needed.

Note, that whereas a second opinion does not engage the original manager, an **independent structural assessment** should since the original client/advisor relationship remains; the independent consultancy does not form a primary client/advisor relationship.

An **independent structural assessment** is not a sales opportunity. It is not the job of such a consultant to provide you with glib reasons as to why you should move managers.

3.1 Second opinions

“Second opinions” should really focus on proposing alternative portfolio solutions and/or specific recommendations and strategy given an individual's financial needs, existing assets, risk preferences and current market valuations. They should focus on what the organisation does best.

Opinions can be cheap and are definitely varied.

Within the financial services industry there are thousands of different opinions. Almost everybody has a different take on the value of a market, their allocation to global markets, smaller companies, technology stocks, emerging markets, fixed interest investments and even the basic fundamentals of investment.

As this document will state, what is more important than an opinion of a security, is the structure in which it the security is related to other securities to both manage risk and return and to meet your financial needs.

Wealth managers would do well to provide greater information and supporting documentation regarding this structure if they want to differentiate themselves in the market place. Independent Consultants should not have to do this job for them.

The more opinions you get, the risk is the more confused you may become. Who is telling the more relevant version of the truth as it applies to you?

The provider of a second opinion might state that they disagree with the securities being recommended and the allocation being provided and that a more appropriate portfolio would include different securities and an alternative asset allocation. The provider of a second opinion might also state that they disagree with the views of markets being provided and would recommend an alternative which would impact on both securities selected and strategy for their implementation.

This type of second opinion is generally provided by an investment advisor or a portfolio manager; in other words a competing advisor and, can only be provided by someone registered to transact securities.

There are a number of problems with this type of opinion.

Different advisors will often come up with different recommendations. If an individual is asking for a second opinion, the advisor has a valid imperative to come up with differences between their approach and that of the original recommendations; the client represents a business opportunity.

Without proper guidance (by an independent consultant), the advisor providing the second opinion may not provide an objective assessment of the weaknesses of their own proposal and solution over those of the other provider (s). Without the support of independent expertise, the individual investor still has to make a decision on whom to trust the most and, which story appears the more credible.

3.1.1 The risks of a second opinion

Many of the [problems that beset the provision of advice in the financial services industry](#) also beset the provision of second opinions.

If you do not have the expertise to understand why one person's recommendations are better than the other, you always risk accepting the opinion of an advisor that promises more but has little substance to back up their promises. One of the ways in which advisors can obviate this risk is by providing better information on their wealth and asset management frameworks.

If you are to accept a second opinion from someone who has an interest in managing your money or sells products, be sure to pay for it and be sure that the opinions and recommendations are fully and comprehensively backed up - see [what your manager should be doing](#) on the TAMRIS website for further information. Beware of a free opinion, from any organisation, no matter how reputable unless the opinion is provided on the mutual understanding that you are also interested in their proposals for wealth management and accept that they will be competing for your business.

A second opinion from a competing advisor is a proposal and if it is also to be treated as an assessment of your existing arrangements it will need to adhere to much higher standards of [communication](#) and explanation.

But, the biggest risk that any investor takes when asking for a second opinion is that it is relatively easy to be critical of most approaches to the management of portfolios. If you are really going to assess whether someone is doing the job properly and what risks you are being unnecessarily exposed to, you need an **independent structural assessment**, not a "second opinion".

Most investment styles will under perform over certain periods of time and all investment styles will produce above average performance over certain periods too. If your prospective manager is aggressively selling their performance relative to the poor performance of your advisor, beware. They may just as likely be set for a period of [poor performance](#). There are many reasons why a portfolio might under perform and, many of these are valid reasons. Only an **independent structural assessment** of performance and discipline will let you know whether the reasons are good or bad.

As with anything, the most dangerous opinion is that provided by someone without the necessary expertise.

In the financial services industry the [science of constructing portfolios](#) is little known and equally little developed. The tools or [systems](#) that do exist have been developed mainly to distribute products and transactions and are intended for those without the expertise to do the job themselves.

There has been an increasing tendency to use these tools to provide second opinions. These tools should be used carefully and only by those who understand the mechanics of the approach and the weaknesses of the approach.

These tools are often used to provide what are called efficient portfolios and they claim to represent what is called modern portfolio theory. Unfortunately these tools need to be used with extreme care for they have numerous weaknesses.

3.2 Mean variance optimisers as opinion/assessment tools

This is a very complex topic and in order to fully understand it you need to understand the [portfolio problem](#), which is how do you manage the complex relationships between financial assets and financial needs over time and, you need to understand the weaknesses of modern portfolio theory. Unfortunately, this is beyond all but those with the technical knowledge and experience to understand³.

In brief, one of the [problems in the financial services industry](#) is that there is insufficient expertise and resources to personally manage individual portfolios. One way in which the industry has obviated the

³ Information is provided on the TAMRIS website for those interested in finding out more.

problem of this lack of expertise is by using simple portfolio software that helps advisors to deliver portfolios to the individual.

This [simple software](#) uses past returns of investments, past risks of investments and the past price movements of investments relative to one another, to construct a portfolio that provides the best mix of risk and return. The trouble is that most of these tools are based on past returns and do not take into consideration current risks and current valuations of investments which are most important. Secondly, they do not incorporate financial needs into their equations.

This type of approach is also very sensitive to the assumptions used. Indeed, because of the sensitivity of the results to the assumptions inputted, anybody using this type of tool to provide asset allocation recommendations is actually taking responsibility for the management of your assets.

If these tools are used to compare where your portfolio is and where your portfolio should be, the results if incorrectly assessed could be costly and damaging to the individual investor. A well constructed portfolio, using a well disciplined investment style but based on current valuation relationships and actual financial needs could well deviate from your standard industry mean variance optimiser.

Moreover, any independent consultant who uses these tools should a) possess the expertise to independently to develop the tool itself (while complex they are not difficult to create), b) be able to generate their own assumptions and constraints and c) be able to interpret the results of these tools relative to the risk and return profile of the portfolios they are assessing. As such, those using the tools need to have much greater expertise than that held within the tools.

Anyone using these tools to provide independent analysis or opinion regarding portfolio diversification or risk, should not be using them to make asset allocation recommendations. Since asset allocation is directly related to security valuation, an asset allocation recommendation derived from these tools is implicitly taking responsibility for the management of a portfolio, or at least potentially influencing the final make up of the portfolio. Please see section 4.2, [Security selection & asset allocation recommendations](#), for an explanation as to why this is effectively providing investment advice.

Since many poorly constructed, planned and managed portfolios are created by this type of software, individual investors should be wary of any analysis or opinions that rely solely on this type of analysis. That is not to say that there are not good advisors that are able to combine the use of this approach with a sensible management of the ability of the portfolio to meet financial needs, but they need a structure and a discipline to do it.

There are frankly more inputs to a portfolio structure and more influences on the management of a portfolio than simple investment software can provide. While these systems can be used to manage money, providing the managers account for other important factors, they are dangerous if used alone to provide a second opinion on the structure and allocation of a portfolio.

Mean variance optimisers are nevertheless useful for analysing the diversification and the risk of a portfolio and would form a part of an independent structural assessment.

3.3 Core principles of portfolio construction, planning & management

While there are 100,000s of different investments and hundreds if not thousands of different views, there are a much smaller number of basic principles that govern the portfolio construction, planning and management framework.

There is only one investment universe!

Where you lie in this universe depends on your financial needs and your risk preferences. An investment manager must therefore be able to relate where you are in the universe relative to where they are and this is

done via a properly constructed, planned and managed portfolio structure and process. Suffice to say that one awarded the job of assessing a manager's disciplines must also understand this too.

The mechanics and the physical properties of portfolio construction, planning and management are complex areas. While an individual financial advisor may not be competent in all aspects of this area, the [combined expertise of the wealth management company](#) must be.

None of the structural issues which relate to whether a portfolio is being properly managed directly relate to the specific securities being recommended. This is an additional and important reason why the provider of an independent assessment should be focussing on the structure and not the security or asset allocation (sum of the securities) recommendations.

Very briefly, the following represent the main questions regarding the structural issues involved in portfolio construction, planning and management or the management [of total assets to meet total financial needs over time](#).

- Does the manager/company have the [resources, investment expertise, discipline and the experience](#) to deliver the portfolio management services they are marketing and, if so, are these being properly applied to your portfolio?
- Do they have a valid investment discipline and do they have the necessary resources, systems and business processes to deliver it?
- Do they have the [portfolio construction, planning and management disciplines](#) needed to ensure that their investment disciplines, security selection and asset allocation are integrated within a portfolio structure that relates to your financial needs and risk preferences?
- Is the client getting value for money? Is performance being explained and communicated and decisions justified?
- Is the client getting sufficient [communication](#) and education to understand the choices and the consequences of the choices? Does the manager have sufficient expertise in understanding and [assessing risk preferences](#) and in relating risk preferences to portfolio construction, planning and management?
- Are the limitations of the service being clearly explained? Are the advisors being realistic and are the [individual's expectations being properly managed](#)?

The decisions that determine the structure of a portfolio, the decisions that determine the planning of your portfolio and the decisions that determine the management of your portfolio are far more important than the actual securities being recommended, or the amount invested in any particular market⁴. **In other words if the structure of the house is not right, who cares about the quality of the bricks!**

3.4 Independent structural assessment

An **independent structural assessment** or analysis of the advice being provided would look at issues that are central to whether or not your money is being managed properly.

An **independent structural assessment** would also lay down [structural parameters](#) that a provider of financial services would need to address in their proposals. **While it would not tell an advisor how to manage security selection or asset allocation**, it would tell an advisor that they need to be able to demonstrate how they will manage risk and return, how they will manage the risks to the ability of assets to

⁴ For further information please see the TAMRIS Special Report on Suitability, Minimum Standards & Fiduciary duty in the Canadian Financial Services Industry.

meet financial needs and, ultimately why their approach is suitable to managing the client's financial needs and assets in this context. Please see the [TAMRIS reporting requirements](#) to find out more about what an advisor needs to justify.

An **independent** structural **assessment** understands there are different views on and ways to manage money. It also understands that each approach needs to be disciplined, well resourced and capable of managing the risks to the ability of your assets to meet your financial needs over time.

An **independent** structural **assessment** looks to ensure that a company's portfolio management services are appropriately funded, well managed and well communicated and that there are effective structures in place to relate its delivery to the client's financial needs and risk profile. This is the only way that security and asset allocation recommendations will be capable of achieving your objectives; the process should drive the security selection and asset allocation and, not vice versa.

An **independent** structural **assessment** provides what an individual investor needs above all else; someone to assess whether the resources, expertise and systems needed to manage their assets are sufficient and being appropriately applied.

This **independent** structural **assessment** of their current manager's wealth management solutions would also apply to the assessment of alternative proposals, or "second opinions" provided by other managers.

The independent assessment for an individual with an existing management relationship obviates the problems caused by jumping immediately to a "second opinion"; *the last thing most individuals want to do, is to get caught up in another financial relationship while they are already in one*. More importantly an existing advisor is more likely to be responsive to a constructive independent assessment than a competitor's comments.

When an individual is asking for an opinion on their existing portfolio management, they are in reality asking for an assessment of whether their money is being managed properly and, if not, what are the areas that need improvement or clarification? What can the manager do to improve the service, the communication and the relationship and, what can the client do to get better value for money and better management?

Most individuals when seeking a "second opinion" of their finances are not asking for another set of recommendations. If they are, they should really ask themselves whether they fully understand what is wrong with their current arrangements and what it is they should be looking for in a new one.

3.4.1 Risks of an independent structural assessment

Compared to the costs of wealth management transactions, compared to the risks of poor wealth management, compared to a second opinion provided by a wealth management provider, an independent structural assessment poses a much lower risk to the individual investor.

The reason is simple. The provider of such an assessment is not intending to form a primary client relationship and will not be recommending transactions or managing your money. Additionally, their reports or structural recommendations go to both your current or future wealth managers who should realistically look to accommodate issues raised. Nothing is hidden and all assessments are open to debate. Moreover, the existing or prospective manager does not need to follow the letter of the assessment or mandate as long as they can justify their approach and why their approach can deal with the issues within its disciplines.

Anything that forces your wealth manager to think clearly about their service, its quality, its structure and its transparency has got to be good for the consumer.

There are nevertheless risks.

Providers of **independent** structural **assessment** need a much higher level of expertise and a greater knowledge and understanding of investment. Merely passing courses needed to sell products and spending years advising or managing money according to one specific style is insufficient.

They cannot tell the market for financial services to deliver passive investments, growth investment, value investment or momentum investing, nor can you tell an individual what investment approach they should take.

You can, however, address the structural strengths and weaknesses of an approach relative to meeting an individual's financial objectives given their risk preferences and natural investment risks and, require that the manager explain how they will manage the portfolio in this context.

You can however point out the weaknesses in arguments that determine the relationships between financial needs and risk preferences and, the wealth manager's proposed solution.

Professionals providing **independent** structural **assessments** need to be able to understand the positives and negatives of different investment approaches and expertise in a wide number of areas. They also need to be able to relate where a client should be (asset allocation, risk/return) relative to the manager's disciplines and therefore determine and assess the contextual inconsistencies, if they exist - see section 4.1, Expertise, page 12.

There are far too many over simplifications in investment that have been designed to shift product, train operatives quickly and assuage client objections to investment. If the provider of an **independent** structural **assessment** is likewise afflicted the analysis you will get and the recommendations you will receive will be compromised by the same problems you are seeking an assessment of. In other words it will be worthless.

4 Expert, independent, objective, impartial structural assessments

The objective of the financial services industry is to either sell products, initiate transactions or to manage your money; this is different from the objectives of the capital markets.

All three represent [conflicts of interest](#) when an individual is looking for a “second opinion”. Indeed, it is partly because of conflicts of interest that independent, third party, structural assessments are often warranted either in place of or pursuant to a “second opinion”.

It is not the job of a portfolio manager or an investment advisor to provide impartial second opinions or independent assessments of another advisor’s work. Indeed, any alternative solution proposed by many advisors will often be constrained by their own product lines, systems and business and service processes.

It is important to remember that an independent assessment or second opinion costs money. For a wealth manager to provide this would represent an opportunity cost, unless they are going to compete for the business.

A second opinion that is free is not an independent second opinion, but a sales pitch. Nevertheless, a “second opinion” provided by a wealth manager is an important part of the manager selection process and, for those ignorant of the investment process and the investment universe, one which needs to be mediated. This is where the providers of [independent structural assessments](#) come in.

4.1 Expertise

[Expertise](#) is very important when selecting a professional to conduct an [independent structural assessment](#) of your portfolio.

- The provider of an [independent structural assessment](#) needs to be a portfolio construction planning and management expert. They need to be well versed in the technical details of portfolio theory and not just able to recite it word for word.
- They need to be able to understand the investment universe and how the [investment universe](#) relates to each individual client financial (liability) and risk profile.
- They need expertise in [asset liability modelling and management](#) since this is key to relating portfolio structure to the management of financial needs over time.
- They need to understand the [fundamentals of investment](#), from the basics of economics, to the fundamentals of security selection, valuation, asset allocation and management.
- They need to be able to understand the [strengths and weaknesses of each investment](#) style as well as the fundamental realities of investment.
- They need to understand the human condition as it relates to risk preferences and the relationship between risk preferences and efficient markets and the ability to accept alternative investment styles with their commensurate investment risks given these risk preferences.
- They need to be dispassionate about investment and competing investment styles.
- They need expertise in risk assessment and to have a strong bias towards investor education and communication.
- They need expertise in the [business and service process](#) and expertise in systems and systems design. Understanding an organisation’s [systems](#) is often key to understanding how they construct portfolios, plan portfolios and manage portfolios.

Unfortunately, most consultancies operate on behalf of the financial services industry and not the individual investor. There are good reasons for this, institutions pay more and, individuals generally do not often want to take greater responsibility in the wealth management process. This also means that independent, impartial, objective and expert opinion is not generally available to the public.

4.2 Security selection & asset allocation recommendations

An **independent structural assessment** should focus solely on issues of expertise, discipline, resources, systems and business processes and the portfolio structures in which asset allocation and financial needs are managed.

It should focus on the disciplines in which security selection is made and the frameworks in which allocation is created and managed **but it should not focus on security selection per se or the validity of a given asset allocation**⁵.

Asset allocation arises from an organisation's valuation, allocation and management framework and is unique to that organisation; providing this discipline is well structured and there are clear relationships and logic between the way they allocate and risk preferences, financial needs and current market risks, the actual asset allocation and security selection is not an issue..

Asset allocation and security selection are fundamentally related and superimposing someone else's security selection or asset allocation on another advisor could compromise the management of risk and return. **Any independent expert that provides security selection or asset allocation will be compromising the client's asset management relationships** and will become responsible by default for security selection and asset allocation themselves.

For individuals it is important to remember that those who offer *independent analysis* of your portfolio should not be providing you with recommendations as to what to buy and sell, irrespective of whether they are registered by a regulatory authority to execute and recommend transactions.

Much more important for the provider of the **independent structural assessment** is making sure that the advisor has a valid valuation and allocation framework, has a valid approach to portfolio construction, has a valid methodology for integrating the management of your assets and your financial needs and clearly justifies and is accountable for all decisions. An advisor that satisfies all these parameters should be capable of providing appropriate stock selection and asset allocation.

Much more important for the provider of the **independent structural assessment** is the pointing out of the weaknesses in the advisor's structures and disciplines, in the delivery of the disciplines and in the management of your portfolio. These are specific things which can be brought to the attention of your manager as well as areas potential managers will need to show proficiency in.

4.3 Independent assessments and industry standards

The standards and expertise of an independent consultancy would be expected to be above the average standards of the industry. This means that the ability to deliver on their analysis and recommendations is determined by the limitations of the industry. Understanding what is and what is not is practically enforceable is part of the consultant's role.

⁵ For example, you are overweight the US market and underweight Canada, overweight Europe and underweight Asia, overweight small caps and under weight large caps. Rather you would focus on the liquidity risks and the performance risks of a given asset allocation and relate these to the ability of an asset allocation to manage risks to the ability of assets to meet needs and match risk preferences. If the manager cannot justify how the asset allocation relates to both it is likely they do not have a specific discipline and cannot manage the associated risks.

4.4 Independent consultants and client relationships

Consultants providing independent assessments of an individual's wealth and asset management arrangements should not only be precluded from making security and asset allocation recommendations, they should also be precluded from making specific, pension, insurance, legal, accounting as well as general financial planning recommendations.

This does not mean they are precluded from laying down the parameters that asset managers will need to take into consideration when constructing, planning or managing portfolios, nor financial planners when ensuring that their financial planning advice corresponds with that of the wealth manager and the needs of the whole, nor indeed any advisor where their advice directly impacts on the construction, planning and management of a portfolio to meet financial needs over time.

What it means is that a consultancy assesses the framework, the resources, and the disciplines in which advice is given to make sure it is efficient, appropriate, cost effective and in the client's best interests.

A consultancy will also ensure that an advisor is communicating, reporting and educating properly, that client expectations are properly managed, that decisions are justified and accountable and that there is transparency regarding costs and performance.

Providing the structure and the rationale is acceptable, the actual management of financial needs and financial assets is the responsibility of all the wealth and financial managers.

Taking responsibility for the specific advice that a client receives (as well as taking consideration for it) in a particular area means losing the necessary impartiality, objectivity and independence needed to do the job effectively.

This particular viewpoint is a very strict one but TAMRIS feels that conflicts of interest need to be avoided at all costs in order to provide effective independent structural assessments. If you are tied in a relationship, actions and advice can be influenced by return. An independent consultant should not fear the consequences of their analysis and the consequences should not influence that analysis.

5 The rationale for an independent assessment

It is important for individual investors to get a “second opinions” on the investment of their assets from professionals registered to provide securities advice and portfolio management when seeking investment advice.

Every manager is different and an investor is well advised to get “second opinions”, in other words a range of alternatives to choose from.

What may not be so clear is why an individual needs to get an independent structural assessment by independent consultants operating outside of the financial services industry per se.

The reason is simple.

The industry itself is still in transition from a transaction driven industry. While the capital markets are adequately regulated the market for financial advice is not; there is currently little or no protection offered to consumers by the regulatory authorities and most importantly, there are no clearly defined principles that determine the suitability of investments and the management of investments to meet personal financial needs.

Moreover, there is no formally accepted methodology for the management of assets and the management of financial needs over time⁶. The standard portfolio construction tool used by the industry is primarily designed to deliver products and does not even have an input for your financial needs within its equations. Large elements of the industry still fail to properly relate the [management of assets to the management of financial needs over time](#).

The education of the industry is still more or less focussed towards transactions and products, which seems natural that the objectives of most of the companies that employ the graduates of the education process will be employed by those who manufacture and sell products or transactions. There are nevertheless companies that are professional and do a proper job.

In short, the reason why an independent structural assessment of your wealth management arrangements is important is because of the lack of a structure and a framework to manage them in the industry at large.

The industry has been looking after itself instead of looking after you. A large part, not all, of the industry is largely driven by self interest and there is a need for a professional, independent, impartial and objective medium capable of providing individual investors with the answers and guidance they need.

Indeed, it is human nature to propagate one's own self interest and the job of an [efficient market place](#) to make sure that the needs and objectives of both sellers and buyers are met. There is indeed no such mechanism to ensure that the needs of the consumer are met.

Therefore an individual is well advised to get an independent assessment of their existing wealth management arrangement or proposals for the management of their assets.

5.1 Suitability and minimum standards

To fully appreciate the importance of an independent assessment, investors must first understand that the least important aspect of a portfolio is the transaction and the most important aspect that of how the securities selected and their asset allocation relates to their financial needs and risk preferences over time.

⁶ It is therefore important that a consultant understands all the main approaches to asset and liability management, including their strengths and weaknesses. Importantly understanding needs to be spatial and not linear.

Indeed, there are [5 principles](#) that govern the relationship between security selection and the individual investor. These are as follows.

1. An investment that is recommended must relate to a) the actual size and timing of financial needs over time and b) the relationship between financial needs and total assets over time.
2. After relating the allocation to a given investment or set of investments based on financial demands on the portfolio over time, the investment must then be able to relate to attitudes to risk and investment preferences.
3. Thirdly, the recommendation must relate to all existing investments and the relationship that exists between these investments and financial needs at a point in time and over time.
4. Fourthly, the recommendation made must make sense given the price of the investment at the time and the risks the investment is exposed to over time.
5. Suitability can only be fully assessed with client interaction in the decision making process. This also means that education and communication regarding the basics of investment, the risks of investment, the manager's investment style and how portfolios are constructed, planned and managed to meet financial needs over time are key to agreeing suitability of transactions, products and recommendations.

Perversely, minimum standards in the financial services industry allow financial institutions to deliver wealth management solutions that fail these key principles. Part of an independent structural assessment will determine the extent to which an advisor or a proposal satisfies these principles.

In this context, consultancies that act on behalf the individual investor could be considered independent financial regulators of the market for financial advice, in the absence of clear rules governing the quality and transparency and costs of financial advice.

If your advisor is relying only on the [know your client form](#) to assess the suitability of investments to meet your financial needs and risk preferences, the risk is extremely high that your money is not being managed properly.

5.2 Main areas of structural & organisational weakness

The following details the main areas of structural and organisational weaknesses within wealth and asset management service providers that substantiate the need for **independent structural assessment**.

- A lack of genuine investment expertise and discipline is often a key weakness⁷. This should not be a problem with an appropriate business and service process and the systems that can deliver expertise from those who have it through those who do not. However, ultimately, many advisors (not all) are allowed to personally construct, plan and manage portfolios without any real expertise or knowledge of how to construct a portfolio; a portfolio is not an accumulation of products and securities sold over a period of time.
- Resources allocated to research in terms of both time and money is also another key weakness for many advisors. It is not uncommon for some advisors to treat research as incidental to the job of managing money. To do the job properly you need a dedicated research function within the organisation. While this research function does not need to be anywhere near as large as that of a

⁷ Simply understanding the basics is not investment expertise. Most investment advisors are not actually investment experts, irrespective of marketing claims that state they are. Most investment advisors are actually generalists that rely on the expertise of their organisation and who communicate the views and disciplines of their organisation.

major institution, it needs to be large enough to be able to do in house economic, market and security research⁸.

- The level of quality control within an organisation. Many brokerages treat their financial advisors as independent businesses, allowing them free rein to recommend more or less what they want and blaming them when clients suffer the consequences of bad advice.
- While there are organisations that make sure that research and asset management decisions are dealt with centrally and, have fully funded asset management departments, the [systems and business processes](#) that deliver the security selection, asset allocation and portfolio management are weak and tend to have only one objective in mind, that of product distribution.
- A general lack of expertise, systems and knowledge on [how to relate portfolio management to the management of financial needs over time](#). Financial planning and asset management are still treated as separate issues even though it is impossible to properly construct a portfolio to meet financial needs over time without directly relating financial needs to the size and distribution of all their assets.

Much of the weaknesses of an organisation are related to a misunderstanding of fiduciary responsibility, a responsibility which is discussed in TAMRIS's Special Report on [Suitability, Minimum Standards and Fiduciary Responsibility in the Canadian Financial Services Industry](#).

5.2.1 Secondary weaknesses

The above relate to major weaknesses in the portfolio construction, planning and management frameworks used by organisations. Some of the secondary weaknesses are noted below.

- Lack of accountability with regard to performance; any client that allows their advisor to provide either no [performance analysis](#), or an extremely limited assessment of performance has no way of knowing how much they are being charged or whether or not their advisor is doing a proper job..
- Lack of any [formal reporting structures](#); many advisors are just not set up to provide formal written communication and most advisors have little training in written professional communication. A lack of a formal communication structure also implies a transaction led as opposed to an advice led service process.
- [Wealth forecasting](#); many use [simple wealth forecasting](#) models when working out how much individuals can take from their investments over time. The dangers of these simple tools are well documented in the TAMRIS website⁹.

The TAMRIS website provides more detailed information on what your advisors need to be doing to [manage your money properly](#).

⁸ There are far too many advisors who rely solely on basic third party research and software to deliver portfolio management services to their clients.

⁹ Please see the TAMRIS technical document on Asset Liability Modelling for further information.

6 Would you benefit from an independent assessment?

Instead of asking “Do you need an independent assessment?” you should really ask, “Would you benefit from an independent assessment?”. Whether you have concerns or not, an independent assessment should never be looked upon as a negative step.

Independent assessments are open to any one of the following 3 groups of investors.

- Those who do not perceive they have a problem.
- Those who have concerns about their existing advisors and may or may not be considering a change of advisor.
- Those who have serious concerns about their wealth managers and are considering making a formal complaint and possibly considering taking legal action.

A decision as to whether you should ask for an assessment of your current wealth manager or wealth management proposals should be your decision and your decision alone.

6.1 Warning signs

There are a number of warning signs that would help those in the first group to reassess whether they need an independent structural assessment and that may confirm to those in the second group that a professional assessment is warranted.

- If your advisor does not provide a [performance analysis](#) of your investments. This does not mean letting you know how much you have gained or lost, but how much you have made relative to a comparable alternative.
- If your portfolio and wealth management advice is based only on the information you provided in the standard KYC ([know your client form](#)). The KYC is often insufficient to properly construct, plan and manage a portfolio to meet financial needs over time.
- If you received no [written communication](#) at the start of your relationship explaining why and how the portfolio was structured to meet your financial needs.
- If you receive no [ongoing communication](#) from your manager regarding how the portfolio continues to meet your financial needs and how it has managed the risks to the ability of your assets to meet your needs.
- If you have a [number of different advisors](#) each recommending products, transactions but not working together.

The reason is simple, if you do not know what is happening and why it is happening you will not know if your money is being managed properly.

6.2 Secondary considerations

There are of course numerous secondary reasons for needing or considering an independent assessment and these are numerous.

- An advisor remunerated by commission and not by fees or a percentage of assets under management. Much of the advice that individuals need and, much of the asset allocation of a portfolio is unlikely to result in a transaction. Sellers of products and transactions may solve the problem through an unnecessary purchase.

- An advisor that sells you products as opposed to well structured portfolios. A proper portfolio with cash, fixed interest securities and equities should be able to meet the vast majority of your financial needs. Products often represent expensive and awkward solutions to relatively simple problems¹⁰.
- A client whose financial security has been adversely affected by market movements. This does not mean clients that have poorly performing assets in their portfolio (all portfolios will have some assets that have not performed as well as others). This means an individual that has had to cut back on what they had planned to spend from their investments because of adverse short term movements in markets and investments.

6.3 Asset & liability management

One of the biggest reasons why an individual may need an independent structural assessment of their wealth and asset management arrangements is that there is limited expertise in integrating the management of your assets to meet your financial needs over time.

You may have excellent portfolio managers (well able to select stocks and manage a portfolio of investments) and you may have professional financial planners. But if one or the other is not taking responsibility for managing the actual relationship between financial needs and your assets your overall risk may be higher and your overall return may well be lower than it should be.

An independent structural assessment would assess how effectively the advisor is managing these relationships and provide guidance to both the individual and the advisor if necessary.

Further information on this can be found on the web page dealing with [total asset, life cycle wealth management](#) and the [portfolio problem](#).

6.4 Financial costs

You will need to pay for an independent structural assessment of your wealth management arrangements. If your manager is doing a perfect job, this will represent an additional cost to you, albeit a limited one since a professional consultant should be able to pick this up before any real work is done.

TAMRIS itself provides an initial assessment or opinion as to whether you need an independent structural analysis and/or other services. If your advisor is doing a good job you will find out at this early stage, perhaps even earlier at the initial consultation.

Because an independent consultant is not managing a full time relationship its costs are smaller. When compared to the costs of a transaction, annual management fees or commissions, or worse the long term effects of inappropriate advice, the cost if an independent assessment is of value to the individual.

The biggest problem individuals face is appreciating the true value of an assessment of existing managers or help with prospective managers.

If you are unfortunate to have to resort to legal proceedings in the event of bad advice it is probably too late for a consultancy to be of practical benefit, with the exception of its expert opinion in the courts. Additionally, the provision of an expert opinion in a legal case is often much more expensive than a structural assessment before the fact.

¹⁰ For further information regarding the dangers of products masquerading as advice, please see the TAMRIS September 2005 Review – Products and Related Issues A Critical Look.

6.5 The value of an independent structural assessment

An independent structural assessment is not just a communication to the client. It is also a communication to the advisor.

Many individuals understandably want to avoid the detail of investment and portfolio management. A structural assessment cannot avoid the detail, primarily because it is the detail comprising the structure or the lack of detail (investment and portfolio construction disciplines, systems, business processes, resources) that underlies the problem.

Only by addressing the detail can an understanding of or, a solution to the problem be achieved.

While a structural report should provide a summary as to the main weaknesses, detail is necessary to provide substantiated reasoning. Otherwise, how will the advisor be able to respond and work towards a solution?

A report with little or no detail, a report that does not explain its rationale and that does not provide a structural assessment of a weakness, will be of little use to either the client or the advisor.

If a client is looking for a simple assessment of what they need to do then they should be seeking a second opinion from an advisor. They should be looking for a primary financial relationship and not an independent structural assessment.

Simple assessments of what to do are effectively unsubstantiated recommendations and imply a primary client/advisor relationship where the provider of the assessment becomes responsible for the wealth and the asset management decision associated with the assessment.

“The advisor is under performing, is charging you too much, does not know what they are doing and the portfolio is not properly diversified and is exposing you to too much risk.” This is a simple assessment. An assessment of the weaknesses of simple assessments can be found in Section 3.1.1, “The risks of a second opinion” on page 3 of this report.

However, when seeking an independent structural opinion the client has a decision to make. Do they attempt to clearly understand the main issues in which case they will exercise control over the decision making process with the help of the independent consultant or do they defer to their advisor and their independent consultant to iterate towards a solution.

Whatever the decision, the independent structural assessment brings greater accountability to the client and his or her primary advisor relationship and this, perhaps, is of the greatest value to the individual.

6.6 The consultancy process

Independent consultants are not financial advisors in the normal sense of the word; they may be financial experts and professionals in their fields but, they do not tell you where to invest or what to buy, nor if they are analysing your overall wealth management relationships, how much insurance you need, how to manage your estate or how to minimise taxation.

This is important because as an independent medium they will not have the authority to effect any specific recommendation for an individual. They work with the individual to better define the services they should receive, to make their advisors more accountable to them and, to allow the individual to make more **informed** decisions about their wealth management. But the individual and the individual's advisors are ultimately responsible for decisions made; even though the consultant provides a vehicle that enables the client to demand better financial advice.

The value that an independent consultant brings to the table is dependent on the value the client is currently receiving from their advisors. An independent consultant cannot sell you any service with a guaranteed service benefit, nor should they entice you into a service agreement with any inappropriate suasion.

6.6.1 Step 1, Initial assessment or opinion

It is because the value of the service is determined by the issues facing the client, that a professional consultancy should provide the individual with an initial opinion as to the main issues and problems.

This initial opinion is **not** a “second opinion”, nor is it an independent structural assessment. It does not provide any structure for the provision, implementation or management of a solution.

It should only briefly address the main key areas affecting the management of the individual's financial wealth where possible and appropriate and provide sufficient information to allow the individual to grasp the issues and to allow them to make a decision as to whether or not they want to proceed with further consultancy.

Further information on this [initial opinion](#) can be found at the TAMRIS website.

6.6.2 Step 2, Independent structural assessment

After an initial opinion has been provided and set out the areas that require further consultancy, a structural assessment of the key areas is provided. This will specifically define the problems and the reasons for the problems.

6.6.2.1 Client with existing wealth management arrangements

If a client has an existing wealth management relationship the [structural assessment](#) will analyse the primary components of the wealth management relationship.

- A review of an organisation's investment disciplines and portfolio performance to make sure that the portfolio is being managed in accordance with stated disciplines and within a well structured asset management process.
- An assessment of the organisation's modelling and management of the relationship between your financial needs and your financial assets.
- An assessment of the organisation's risk assessment, risk profiling and education – this assesses to what extent they are managing your expectations and to what extent the portfolio relates to your risk preferences. Where necessary, an assessment of the individual's risk aversions may be needed if the organisation's risk assessment is insufficient.
- An assessment of fees and charges; are you getting value for money?
- The integration of your wealth management relationships – some of the biggest risks and costs can occur simply because your advisors are not working together.

No one individual is the same and some individuals may not need a full structural assessment. Some clients will have advisors that are proficient in key areas and provide enough information to back up and justify their disciplines and structures.

6.6.2.2 Client with no wealth management arrangements

Individuals that are looking for wealth managers will still require a structural assessment of the relationship between their financial needs and assets as well as an assessment of their risk and performance preferences. This is key to developing the structural mandates to be sent to prospective wealth managers.

This structural assessment is an extremely important component of the independent assessment process and manager selection cannot be truly effective without it.

6.6.3 Step 3 - Structural mandates

One of the most important areas to which a consultant provides input are the instructions sent to wealth managers for the management of assets and financial needs. It is here that the expertise of the independent consultant is of the most practical benefit to the client.

The mandate instructs the advisor to clearly demonstrate the relationship between the needs and risk preferences and portfolio structure, planning and management. This will force the manager to deal with the following areas in their reporting.

- How they will deal with [complex planning issues](#)
- Their [investment planning disciplines](#) including how they will manage your assets to meet your need over time.
- Explanation of the [recommended asset allocation](#) and the rationale behind their [approach to asset allocation](#).
- How they will deal with [existing investments](#).
- Justification of the [vehicles](#) they use to allocate to cash, fixed interest and equities.
- Aspects relating to [taxation, registration](#) and the costs of transition.
- Specific information on [recommended investments](#).
- A [risk analysis](#) of the portfolio.
- How they will implement the recommended portfolio.
- [Other](#) relevant information.

The answers to this mandate provide a litmus test to the true abilities and disciplines of the wealth manager.

If there are problems with an existing wealth manager's services the independent structural analysis can be sent to the advisor along with the [structural mandate](#) to establish a proper framework for the management of their assets going forward, a will need to be developed.

Structural mandates overcome one of the major weaknesses in the financial services industry in Canada; that is the "know your client" form. A structural mandate will provide the wealth manager with all the information that they will require them to place the appropriate emphasis on [suitability](#). Their investment policy statements will also need to reflect the structural demands of the mandate as opposed to the limited demands of the KYC.

Structural mandates would also need to be developed if the client wanted to select new wealth managers in favour of their existing arrangements or for those clients with no current wealth management advisors. .

A structural mandate will not tell your wealth manager to buy or sell any securities, nor will it tell your manager to change their asset allocation or style of management.

Importantly, because there are numerous ways of managing risk, meeting needs and structuring portfolios a structural mandate should not force any advisor to follow a specific approach; as long as they clearly

demonstrate that their approach has a viable structure and rationale and can relate to your needs and risk preferences as well as manage the risk and return in the market place, the advisor will have satisfied the objective of the mandate.

Indeed, a good wealth manager would look upon a structural mandate as a good opportunity to showcase their ability and service standards over and above those of their competitors. Moreover, a manager that establishes good practises in the market place should pre-empt the need for a structural mandate. Good managers reduce costs and improve service at every level.

6.6.4 Step 4 - Manager Search & selection

The [manager search and selection process](#) starts at the structural mandate, leads to the assessment of [reports](#) provide by managers in response to structural mandates as well as the monitoring and implementation of proposals during the transition process.

6.6.5 Monitoring

Independent consultants should also provide a low level and low cost service option that monitors construction, planning and management for compliance with the mandate agreed between investor and advisor and to ensure accountability and justification of decisions.

6.6.6 Education

A good independent consumer focussed consultancy will have a strong focus on education and will look to transfer as much of the decision making process to the individual.

6.7 Asset & liability modelling & management

There is one area of expertise that most wealth and asset managers are currently weak and this is the integration of the management of assets and the management of financial needs.

This is the most important relationship as far as the individual investor is concerned. It is a relationship that cannot be managed by the industry Know Your Client form and associated minimum industry standards.

Education regarding this area of portfolio management is also barely touched upon within most securities and asset management qualifications as well as professional financial planning exams.

While TAMRIS does not force companies to operate at the highest standards in this area, it does ask managers to demonstrate how they will take an individual's financial needs into consideration when constructing, planning and managing a portfolio.

Of all the components of the independent structural assessment, this is the most important. Without it the development of a structural mandate is considerably weakened. Until the industry develops better standards for the management of this relationship this will remain one of the most important areas of expertise for the client

Further information on the [asset & liability modelling and management service component](#) can be found at the TAMRIS website as can a detailed explanation of the importance of managing the relationship between assets and financial needs, or what TAMRIS calls [Total Asset, Life Cycle Wealth Management](#).

7 Conclusion

You go to your financial advisor, they spend time with you, make you feel comfortable, they tell you they can manage your money, make a bit more than you are currently making, comfort you about how they manage risk or possibly excite you about returns they can make. They talk about diversification, about portfolios designed to manage risk and return, products that can give you the best of both worlds. they take you through a risk assessment you might not fully understand, but it all seems relatively simple and you thank your advisor for keeping it that way. They seem to understand you and they have talked simply and with little complexity about what they will do for you, they send you statements regularly and never bother you with too much information.

We would all like the world to be this simple and easy.

If the financial services industry's standards were much higher, if all advisors were properly trained, if all firms were properly structured to deliver appropriate wealth management, if there was greater transparency over service standards, charges and performance and greater accountability in general, then, just perhaps, we might be able to keep it simple, but probably not as simple as you might wish, even then.

Unfortunately the world we live in is a complex one and it is a complexity largely of its own making. In order to fully understand it and to be able to assert your needs in this world, you need an organisation that can understand the complexity and can assess an advisor's ability to manage the complexity.

As discussed, an independent consultant is not your primary financial advisor and does not provide you with simple recommendations that will solve your problems. It must by necessity focus on the detail and the structure in order to fully understand and substantiate the strengths and weaknesses of current or prospective managers.

It is in truth your advisor, or your prospective advisor that must be able to face and answer to either an independent structural assessment or a structural mandate. An independent consultant becomes your expertise, but you must expect far more detail than would ordinarily receive because it is in your interests.

If you are looking for a set of easy instructions as what to do, you should not be looking for an independent structural assessment, you should be looking for a second opinion from someone who would form a primary financial relationship with you. But note, the potential pitfalls of such an approach.

Education – Ignorance may not be bliss but it is a choice we all have to face

The most important step for any individual investor is to educate themselves over investment and the risks of investment and to delve deeper into what they should be looking for from their advisors.

While it is common practise for individuals to rely on referrals from friends for financial advice, it must be pointed out that friends are not experts. Secondly, while a recognised professional qualification is always important, it does not guarantee that the advice you receive will be well structured and of value. Household names are also no guarantee of good advice and the fact that an advisor is registered to provide advice is no guarantee that they have your interests at heart.

Investors who do not want to incur the costs of an expert opinion as to whether their money is being managed properly may not fully understand the benefits of such an assessment or the very real risks of bad advice.

But, the dilemma remains for the individual. Just who is telling the truth and in whom can you trust. The risks of seeking a second opinion from another advisor may be just as great as no other opinion at all and there is no guarantee that an independent assessment of your wealth management arrangements will be backed up by the necessary and requisite expertise.