

YOUR MONEY

SEPTEMBER 15, 2011



Kim Inglis, BCom, CIM, PFP, FCSI, AIFP

Delegation can make a difference

Benefits of hiring a portfolio manager

In the aftermath of 2008-09, many investors have opted for discretionary portfolio management services. According to the Investor Economics Spring 2011 report, advisor-managed programs experienced growth of 9.2% for the quarter and 30.5% year-over-year with assets increasing from \$40.1 to \$52.4 billion as of March 2011.

With discretionary accounts, time-pressed investors delegate day-to-day investment decisions to their Portfolio Manager (PM). That differs from non-discretionary accounts where clients must make final trading decisions. In a fast-paced financial world, delegation makes a difference.

Consider an Advisor with a hundred clients in non-discretionary accounts, each holding a particular stock. Should the markets take a turn for the worse or the company post unfavorable results, the Advisor must contact each of those clients for approval to sell the position.

This can be a serious disadvantage when a situation warrants immediate action. Think about Sino Forest Corporation. The company dropped from \$18.05 to \$4.81 in only two days following an extremely negative research report.

For clients in discretionary accounts, the PM can act on available information quickly and efficiently, selling the position out of all their accounts in a single, cost-effective transaction. Likewise, the PM is better positioned to seize

buying opportunities. When the markets dip and a good quality stock inexplicably drops in value, the PM can again act without delay.

Discretionary management can be particularly useful for profit taking. Many investors find it easy to buy positions, but difficult to sell when the time is right to pull the trigger. A good PM takes emotion out of the equation by making the decision for the client.

The PM doesn't invest without restriction, but is bound by the parameters outlined in a jointly developed Investment Policy Statement. Investors may even establish constraints based on such things as personal principles and specify avoidance of stocks from industries they feel are socially undesirable. The investor has even more peace of mind knowing that discretionary accounts are subject to greater governance and oversight by the investment firm.

Discretionary accounts are very cost effective as most come with fewer fees than mutual funds. Fees are usually based on assets under administration, which motivates the PM to perform well because their fee is linked to portfolio performance. Fees are generally tax deductible in non-registered accounts.

For some investors, discretionary accounts aren't suitable. They enjoy being more hands-on with their investing and like being a part of the

Delegation can make a difference: benefits of hiring a portfolio manager

Continued from Page 1

decision-making process. Others have such complex constraints on their portfolios that discretionary management isn't possible.

Discretionary accounts are ideal for investors, such as busy executives, business owners and others who do not wish to be actively involved with portfolio management. These accounts are most suitable for investors who prefer a balanced approach to investing and have a long time-horizon. Discretionary accounts usually have higher minimum investment requirements, often starting at \$250,000.

Qualification to be a Portfolio Manager naturally requires higher levels of education and experience than other advisors. However, when choosing a PM, investors should seek even more distinctions, such as access to high quality research and freedom from any influence toward proprietary products. The PM should have a clear communications plan and be readily available to answer clients' questions.

Kim Inglis, CIM, PFP, FCSI, AIFP is an Investment Advisor & Portfolio Manager. The views in this column are solely those of the author.
www.kiminglis.ca