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Peter Andersen, Contributor

INVESTING

How To Grill Your Portfolio Manager

Never confuse sales with stock picking.

Choosing a money manager for your assets is a subtle process. The first part of the process is usually a meeting with the salesperson, not the stock picker. Remember that. Most people ask for recommendations from business colleagues, relatives and friends. That may be a good way to start, but ultimately you will have to decide which manager is best suited to your individual needs and situation. How should you proceed?

The formal relationship between a client and portfolio manager is integral to establishing a personal wealth management plan. Most of us have little experience choosing such a manager and lack the tools to recognize good fit, but there are some simple steps you can take that should help the decision-making process.

As an investment portfolio manager ("PM") for private clients, I consult to a wide range of personalities on investment matters. Over the past two years I have seen clients in highly stressed states over the markets. Many clients left other managers before interviewing me as a prospective PM, often revealing why they left. The reasons are usually simple and serve as a list for what to avoid in a manager. However, let's turn those negatives around by listing the positive attributes in an investment manager.

Here are several questions you should ask yourself to determine if the manager is a good fit for you. I suggest you use these questions as an internal agenda for your meetings. Then, after the meetings, quietly assess your answers to the questions.

- **Is the PM accessible to me?**

Money managers are very busy, but you need to know how often you could expect to talk to your portfolio manager per quarter. In my view any advisor worth his salt will return your call within 24 hours. I love talking with my clients.

- **Do I understand what the PM is saying?**

Even though the world and tools of investing are growing more complex each year, you should always understand what you are invested in and why. A portfolio manager that uses specialized complicated terminology is troublesome—it signals to me that such a PM does not read social cues well, or is too "out of touch" with clients. It could also signal a kind of defensiveness that is certainly not helpful to clients' achieving their investment objectives. One "PM poser" I've met deliberately talks over his clients' heads! Why? "Because that way my clients will think I'm smarter than they are." True story.

- **Does the PM understand what I'm saying?**

During your preliminary meetings, try to get a sense of the PM's receptivity to your own opinions and ideas. Communication must be both ways. If you feel that is not the case, move on.

- **Do I like the PM's bedside manner?**

Just like picking a primary care physician, a compatible "bedside manner" is critical in establishing a long lasting relationship. Does your prospective PM treat you with respect, encourage questions, and answer them in a way you can truly understand? Or does your advisor talk down to you? Or worse-over your head? See above.

- **Does the PM admit mistakes?**

During the recent confusing state of the stock market it is tempting to conclude "nobody knows anything." While we all know investing has a random component that can complicate the relationship, look for a PM that has the self-confidence to admit mistakes. We make mistakes all the time. And some of us actually learn from them.

- **Do we both understand my risk tolerance?**

A model client/PM relationship has a mutual understanding of your "risk tolerance"– how much you can stand to lose in your portfolio. If you feel that your PM does not know your tolerable loss range, then how will you know your investments are positioned correctly? For example, suppose your PM is helping you sort out that hot new exchange-traded fund that you heard about last week. The discussion should always focus on the suitability for your portfolio given your stated risk tolerance. A good money manager should center client discussions on their risk tolerance and ask them how to reconcile their enthusiasm for new products with their ability to accept losses related to the strategy.

- **What are the PM's credentials?**

Professional certification of the PM is an insightful consideration. The Chartered Financial Analyst (CFA) designation is the best. It indicates that managers have completed three grueling years of study and exams in the fields of investment analysis and portfolio management of stocks, bonds and their derivative assets. High failure rates, too. There are other designations like the Certified Financial Planner, but these are not focused on investing. Ask your potential PMs if they also manage “institutional accounts” that represent company retirement assets and are overseen by technical consultants. Such accounts are large and very competitive to win, so this additional vetting process is an independent validation of the PM’s investment abilities.

- **What is the PM’s investment track record?**

The only way you make money is by picking stocks that go up! The PM should freely show you the annual returns of stock picks and a comparison to the general markets such as the S&P 500. These numbers should have some formal approval by an independent auditor that certifies the results. Have the PM explain what happened in the unavoidable down years and why that happened.

Choosing a wealth manager can be a difficult task, so ask yourself how well you know the manager before you commit to an engagement. One last thought. You need not explicitly ask the above questions—they should naturally emerge from your dialog with the PM. If they don’t, then use that as an additional data point in your continuing search.