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2011 KPMG Bermuda BANKING SURVEY

In-depth analysis of the financial performance of the local banking sector over the last five years

Pictured: Phillip Butterfield, Horst Finkbeiner, Ian Truran and Bradford Kopp

SURVIVING A BAD ECONOMY

Operators of successful small businesses share their guiding principles

Bermuda is the Business

Selling the island as the domicile of choice is Business Bermuda's mission

The Voice of Business

Chamber of Commerce President Stephen Todd



Goldilocks and the 3 Investment Firms

Argus Financial's COO Cindy Campbell on picking the right investment firm for your needs.

Size does matter. Is it too big, too small or just right? To be perfectly clear, I am talking about investment firms. In the “bigger is always better” world, investors can get lost in corporate mandates. While in small shops, investors face key man risks, along with potential infrastructure and buying power challenges. But in the mid-sized firm, however, with a strong support infrastructure and enough assets under management to gain access to the top investment funds, you can find a match that is just right.

How do you pick the right size firm? There are several attributes that you should evaluate: What type of service will you receive? What is the breadth of the investment options available? How flexible is the investment process? And finally, what other services does the firm offer?

You have worked hard for your money and you want your money to work for you to meet your objectives and goals. The investment firm you choose should be focused on meeting your goals. Let me say that again because it is critical, the investment firm you choose should be focused on meeting your goals.

The larger the institution, the farther away the decision makers are from the client and

the more likely there are to be corporate mandates that place dollar amounts on asset gathering goals by fund. The problem is that the firm may be more focused on meeting their corporate objectives rather than your personal objectives and you'll end up in funds that might not be appropriate for you. Larger firms also tend to have less flexibility because they have more rigid corporate guidelines.

Smaller firms are often less rigid and offer a much higher level of personalised service. The level of service is one of the key distinguishing characteristics of small to mid-sized firms. If the smaller firm is large enough to offer its own funds, you can often speak directly to the fund manager to discuss his or her thoughts on the markets, why the funds are structured as they are and any potential changes to the fund. One key thing to evaluate in a smaller firm is the bench strength of the firm. The smaller the firm the more key man risk you have.

Finally, when it comes to personalised service, you should evaluate if the firm is offering investment management or wealth management. There is a subtle difference between the two. Investment managers focus on asset gathering and managing the assets

gathered based on a mandate given to them. Wealth managers tend to offer more personalised service and focus on looking at the total financial picture of the investor. For an individual this includes evaluating their goals and objectives, their contingency plans, and their estate goals. The wealth manager then makes sure that all of the investments, whether held at the firm or not, are working together to reach those goals. Wealth managers can easily work as investment managers but investment managers rarely work as wealth managers. Titles can be deceiving, so you need to evaluate the true level of service offered.

Not every investment solution fits every client. How flexible and how deep is the investment platform of the firm you are working with? What kind of buying power does the firm have? Can you only invest in the firm's branded products? Will the company hold other investments that you may bring to the portfolio?

Larger firms tend to offer their own branded products and often have difficulty holding any assets that are not their own. They can usually offer a wide range of products, but it will be their managers and their products.

Small firms will offer a variety of products but, due to their limited buying power, are often restricted to retail funds, which tend to have higher fees and often have front end or backend loads.

Mid-sized firms often have enough buying power to access institutional funds, which carry lower fees and costs, and can choose from the best global managers because they are not limited to using in house managers. Many mid-sized firms also offer their own fund of funds, made up of managers selected from the global universe of funds. Depending upon their structure, some mid-sized firms can offer institutional funds at retail levels.

The flexibility of the firm's investment platform will determine the variety of assets the firm can handle. Some open architecture platforms can hold bonds, stocks and funds in addition to the firm's own portfolios and funds. If you hold a variety of assets, you may want to find a firm that is able to hold all of your assets in one place as it will simplify the monitoring of your investments by generating a single statement reflecting all your holdings.

If you have a specific goals and objectives that require customised portfolios, small to mid-size firms will have the ability to create customised portfolios at much smaller asset levels than do large institutions. Because mid-sized firms are large enough to create their own products and because the portfolio teams are closer to the clients, they can often quickly respond to the creation of new products to meet their client's demands without the excessive red tape of large institutions.

Regardless of the size of the firm you use, you should evaluate the quality of their reporting. Are the fact sheets clear? Are the returns of the funds independently administered and audited? Are fees clear and transparent?

Finally, what type of extra services does the firm offer? If the firm offers financial or retirement planning services, are there restric-

tions? Does the firm have qualified financial planners? Financial planning is a service, not a product. Financial planning professionals have a fiduciary responsibility to offer independent opinions and conclusions to

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your financial situation. You should receive a detailed financial planning report in writing. Investment advice is one of the last steps in financial planning and the planner should lay out the type of asset mix you should use and the type of returns you will need to meet your financial goals. You should then have the option to invest wherever you want. A firm should not require you be an investor in order to receive financial planning.

What type of information or educational seminars does the investment firm offer? Are the seminars always a product push? Are the seminars only offered for elite customers? If either of these answers is yes, you can be sure the focus of the firm is more on asset gathering than on increasing their level of service.

How often does your representative call you? Do you have trouble reaching your representative? You are paying for a service; you should expect to get good service. Your representative should be willing to meet you outside of normal business hours if that is what you need. If you are locked into only getting service between 9 am and 5 pm, then there are firms that will give you better assistance.

Just like for Goldilocks, the ideal solution for investors will often be the mid-sized options. The firm will be small enough to give you the type of personalised service you deserve but will be large enough to give you

access to a robust and wide variety of funds. The relationship between you and your advisor should be one that focuses on your needs and objectives and you should expect a high level of service. You are putting your trust in an investment firm to make sure that your interests, not theirs, are taken care of. It is worth looking at your various options. BB

About AFL Investments

AFL is a joint venture between the Argus Group (60 per cent) and Cidel Bank and Trust (40 per cent and managing partner). Cidel is a leading financial services company with offices in Canada, Barbados and South Africa. AFL's portfolio team currently manages over \$4 billion in assets under administration between clients of AFL and its parent company, Cidel. AFL offers investment solutions to high-net-worth individuals, endowments, trusts, as well as local and international corporations. AFL Investments is licensed to conduct investment business by the Bermuda Monetary Authority.

