



Choosing the Right Wealth Manager

by Steffen Binder, Managing Director

1. Summary

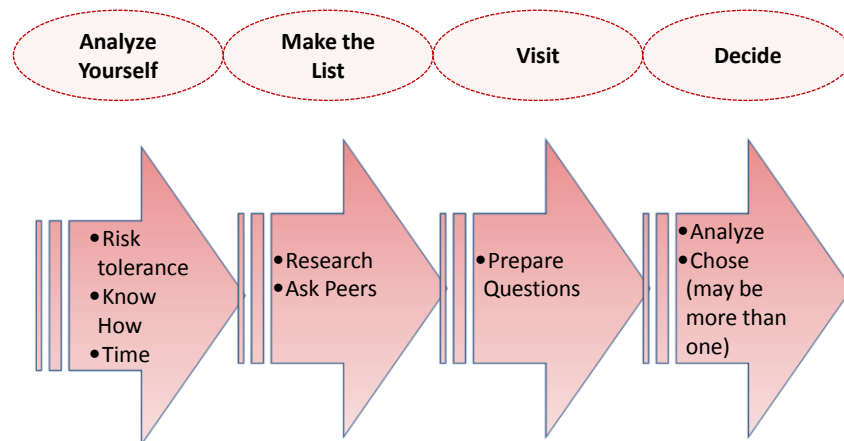
There are many reasons why you could be looking for a wealth manager. Perhaps you have just come into an inheritance and are looking for a reliable wealth manager. Perhaps you are not happy with your existing banker and are looking for a change. Or, you don't want to keep your assets in a current account any more, and need help. Most people do not have the faintest idea on how to go about this properly. In fact, most investors put more effort into finding their favourite restaurant than they do to identify the best wealth manager. A mistake that often costs millions.

This guide gives you a set of practical, easy to implement instructions on how to choose the right wealth manager. The following important points should be borne in mind here:

- Do things systematically, and proceed step by step
- Avoid emotional decisions: it is not about finding the most likeable wealth manager, but about finding the best
- Start with an analysis of your case: your needs and prior knowledge would be decisive
- It is worthwhile to put in some effort and objectively compare various providers
- Never put all your eggs in one basket
- Take your time

2. Self-analysis: the first step towards the right bank

Figure 1: Process of Choosing Your Wealth Manager



Only those who know their investor personality properly can hope to find the right bank or right wealth manager. That is why the first thing the wealthy private customer needs to do is to perform an honest self-analysis. In the following we provide you with a framework to determine your investor profile. This is done in a qualitative way. However, in a separate brief we also provide a comprehensive self-analysis questionnaire. Please check under www.MyPrivateBanking.com.

Determine your goals

First you have to be very clear on your overall goals for your investments. Goals have to be determined with respect to the importance of capital protection, your expected rate of return and required income/cash flow from you assets. This involves questions like

- How important is it for you to preserve your capital?
- Which rate of return do you require?
- How much income should your capital generate?
- Do you require significant cash flow at specific points in time?
- Do you save towards a specific goal like buying property or to have funds for retirement?

The return is clearly dependent on the risk. Anyone who expects above average returns should also have a higher inclination for risks. Which leads us to the next point.

Analyse your risk tolerance

Risk is the central to every investment. Only those who can assess their risk tolerance correctly can arrive at the right decisions concerning their bank.

Definition: Financial risk is the probability that an investment's actual return will be lower than expected. This includes the possibility of losing some or all of the original investment.

Risk has a very important time component: Conclusive data shows that in the long run risk is decreasing, especially for stocks. So your time horizon becomes very important. The second important component of your risk tolerance is your dependence on those invested assets. If you are dependent on the cash flow from a certain asset, especially in a shorter time frame (here we come back to the time horizon), your risk tolerance tends to be low.

Typically, the appetite for risk is high when the stocks are doing well (because it is hard to imagine the markets crashing, or one is hardly willing to do so), whereas in times of recession there is a high aversion to risks. But the investor must define his risk independently of the current market condition. Several questions may help you to assess how much risk you are prepared to take:

- Which potential maximum loss are you prepared to accept?
- How large a probability for such a loss are you willing to accept?
- How long is your investment horizon?
- Do you depend on cash flow from your investments?

Understand how you cope with uncertainty

This concept relates to how you feel about, react to and cope with uncertainty. It is somewhat different from your risk tolerance since you may feel very stressed and frustrated just by strongly fluctuating asset values without even taking a loss. The longer the period over which this tolerance to frustration can be stretched, the better that investor can cope with uncertainty. The following questions may help you understand how you deal with uncertainty:

- Do you feel emotional stress when your portfolio goes up and down a lot?
- Do you anxiously and frequently check financial quotes on the Internet?
- Do you strive for assets which have a very stable and predictable value development?

Determine your level of knowledge

The required knowledge involves financial strategies, the evaluation of investments and technical issues such as the processing of stock exchange orders. Most investors overestimate their knowledge. However, investment decisions based on half-baked knowledge are often

the most dangerous, since one ends up taking decisions without the ability to foresee their consequences.

- Do you have a professional business background?
- Have you had exposure to several cycles of the stock market or other asset markets?
- Do you understand what drives the value and the price of a security like a stock, bond or real estate?
- Do you know independent experts who are willing to give you unbiased advice?

Other factors to consider

- **Time and effort:** Investing money is a time consuming task. One has to reckon with a substantial number of hours per month, if one does not want to leave the decisions entirely to the bank or wealth manager.
- **Your international experience matters:** Today, investment decisions are almost always made in a global context. No investor can get away with excluding foreign instruments today, because the inclusion of foreign investments enables better diversification. Knowledge of the English language is indispensable here. This should be accompanied by a certain knowledge of the countries in which one is to invest.
- **Personal factors:** This includes the tax situation of the investor, as well as a whole set of other personal factors such as domicile, family situation, age, professional situation, etc.

Conclusion

In conclusion you must ask yourself: Are you an investor with a challenging goals, high-risk inclination, long-term horizon, sound knowledge, readiness to invest your time and an international background? In that case you will not need a wealth manager. A deposit with an online bank will be fully adequate.

If, like the majority of us, you do not belong to this group, then you will need more or less intensive support. Here, the basic differentiation can be made between a *Wealth Management Mandate* and an *Advisory Mandate*.

So you have basically three major options to chose from:

- In a *Wealth Management Mandate*, you will be entrusting the concrete investment decisions to the bank. You will enter into agreement with the wealth manager on the risk approach only in the beginning, e.g. "conservative", "balanced" or "aggressive".
- In the case of an *Advisory Mandate* all the investment decisions will be taken in consultation with the client. You will get suggestions, research and analysis from your advisor. But ultimately you have to take responsibility for all investment decisions.

- In the case of the *Do-it-yourself approach* you know exactly where to go and what to do. You do without any support from a wealth manager. You have your own sources for research and analysis and you are able to efficiently execute on transactions.

3. Make a list of potential candidates

Once you are clear about your starting situation, the next step will be to draw up a list of potential candidates. We find it useful to talk to at least five to ten wealth managers in person. Don't worry about the time: It will be a good investment. How do you go about drawing up such a "long list"?

- **Do your research:** Use the rating tool on our web site www.MyPrivateBanking.com, or take a look at what the community has to say in our web site.
- **Recommendations from friends and other trustworthy persons:** Listen around! Who is particularly satisfied with their bank? Who are the wealth managers recommended by your tax consultant?
- **Follow the financial press:** Which banks and wealth managers have a positive resonance in the press? Who is bogged down by difficulties?

These three steps will provide you with a long list of potential candidates. Now in the next step you probably want to shorten that list to a practical number of potential providers:

- **Take a close look at the web sites of potential providers.** Does the web site offer only general information? Or is the wealth manager giving detailed information about services and performance history? Is there any interesting information to be downloaded, and are there any references? If it is a large bank: Is there any rating information on the credit worthiness of the institution? Do not forget to read through the annual financial statements of the last three years: You should take a critical look at losses, but also disproportionate profits or increases in profits could eventually point to risky businesses.
- **Geographical proximity:** Personal contact with the wealth manager is important and this is often possible only through face-to-face discussions. That is why geographical proximity plays an important role.
- **Include providers from different categories.** Remember, different types of wealth managers often adopt vastly varying strategies.
 - **Major international banks,** which mostly have an Investment Banking and Retail Banking segment: these often provide extensive product palettes within their institution and have their own analysts who provide extensive research. Their global orientation also opens up opportunities abroad.

- **Private banks, often with personally liable shareholders:** This is the typical private bank with a European touch. Discrete, clear and focussed on the topic of Wealth Management. A big advantage is that the bankers are also the proprietors and bear the risks fully. Hence, your money should be in the hands of those who are aware of the risks.
- **Independent wealth managers:** These mostly provide only advisory services. Deposit management and transactions will be in the hands of a bank. The wealth manager can, but need not have a full authorization for your deposit. The biggest advantage here is that the independence of the wealth manager will prevent the intrusion of the bank's own products into your deposit, which could be profitable for the bank, but not necessarily for the customer.
- **Other banks:** Many regional or cooperative banks today offer wealth management services. It might be useful to talk to these providers. The advantage lies mostly in the geographical proximity and knowledge of your personal circumstances.
- **Unconventional service providers:** You should include a few providers who you think are a bit out of the way, at least by way of ensuring a balanced perspective. You have worked only with large banks so far? Why not include a small, independent consultant too? You have no idea what the foreign providers can offer? Perhaps you will find some branches of foreign banks in your neighbourhood.

Once your list has anything between five and ten appropriate providers, you should perform a tentative ranking using the information and recommendations that are currently available to you. Contact the most appropriate of these five to ten providers in the list. Take down notes about how long it takes to get an appointment and how friendly a reception you receive: these in themselves can be indicators of the quality of customer service to be expected. Do not decide anything until you have spoken to every candidate in the list and received a comprehensive proposal!

Salespersons, not really friends

We often come across them in the nicest places in the city: At the Bahnhofstrasse in Zurich, Wall Street in New York, or the Champs Elysées in Paris. The entrance foyers are done up in marble. The receptionist is exquisitely polite. You would receive an invitation for lunch at one of the best restaurants in town or meet up at the opera festival in Verona. The bank staffs are trained at being good conversationalists, are well versed in arts and culture, and know how to enjoy a game of golf, and the customer always wins.

Over the years, banking consultants get to know the most intimate secrets in the lives of their customers. It is not just property and assets that are laid bare. They also get to know about the family background and how things stand exactly within the family. They have inside information about property. They know where the money is going. They even know if a customer is maintaining a house for his secret love in Barcelona. Banking consultants often know the details of wills, marriage contracts and shareholder contracts of companies in which their client has a holding. Of course the banks also provide assistance in matters related to taxes and thus come to know even more about their customers.

Thanks to this proximity, there often develops between the client and consultant a very close relationship, almost bordering on friendship. And this is precisely the way the banks want it. But somewhere down the line, a sort of misunderstanding has crept in. The customers really begin to look upon their banking consultant as a friend. They believe that the consultant would really have their interests closer to his heart when in doubt, rather than those of his employer.

Unfortunately, this is not the case. On the contrary, consultants with private banks and asset managers are normally seasoned salesmen. They have their goals; how much “fresh money” is generated per quarter (this could mean new money from existing customers or from new customers). They have their targets in terms of margin per customer (that is, the percentage of the investment that remains with the bank). The banking consultant typically also has clear orders on the (profitable) products for which he has to whet the customer’s appetite. And this is in no way to be construed as moral depravity on the part of the banks. After all, these are absolutely normal business practices, like in every other field.

And the consequence is that one should proceed very systematically and unemotionally while selecting a wealth manager, and in conducting one’s day-to-day business with them. The selection should be based on a clear catalogue of criteria that has been drawn up personally. During subsequent business, there should be professional controlling, which measures the service and performance of the bank should be evaluated in terms of meaningful goals and criteria for comparison.

4. Put your candidate through the paces

Before the personal meeting, you should prepare a list of questions that you would put to your wealth manager (please see appendix). Your questions should be about what goes into the making of a wealth manager, strategies, service and costs.

But the most important clue for you would be the questions put to you by your candidate. A good wealth manager is characterised by his efforts to get a precise understanding of your personal situation. It is only in this way that he will be able to draw up a custom made investment proposal for you. We believe that only a structured questionnaire ensures a comprehensive profile. Information that the prospective wealth manager should at minimum ask you for:

- Personal situation (profession, children, family, residence)
- Financial situation (asset to be invested, real estate, other assets, salary and other income as well as tax issues)
- Risk appetite and investment horizon (see chapter 2)
- Goals of the investment (see chapter 2)
- Desired type of cooperation (advisory or comprehensive wealth management, also form of communication)
- Other requirements (e.g. large payouts that are to be made from the assets, currency preferences)
- Source of the assets

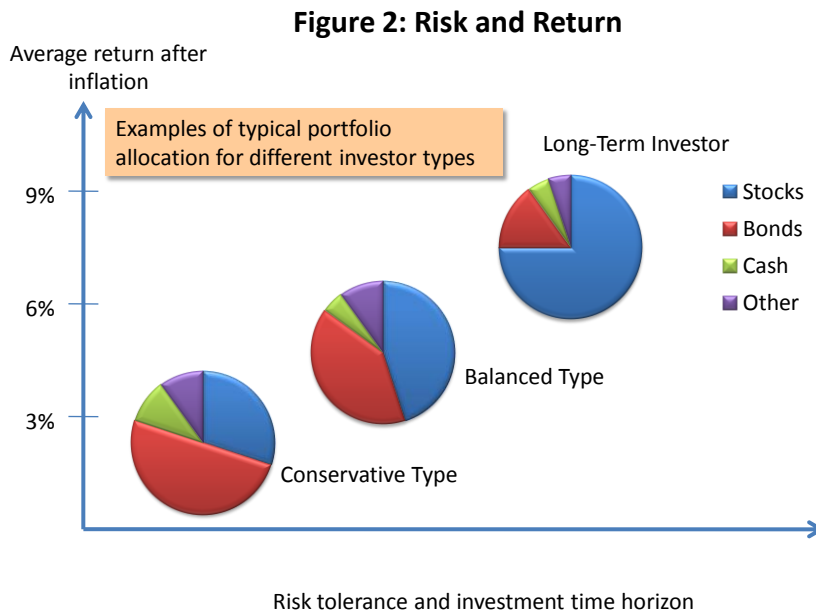
At the end of the meeting the wealth manager should send you a detailed, written investment proposal. You will receive five to ten proposals, which you can compare and evaluate comfortably at home.

Think twice about all candidates who fail to respond promptly and in a friendly manner to your request. Because this is an indicator of what the customer service will be like later. Reconsider also all those wealth managers who do not try to find out in detail about your situation, for they will not be in a position to give you a customised proposal.

5. Thoroughly analyse the investment proposal

By now you will be well acquainted with wealth managers. You will know something about your own expectations, know-how and needs. And you will have a stack of investment proposals in your mailbox. What next? You are not a financial analyst? No problem, with a few simple analyses you will be able to assess the quality of the proposal.

The most important factor is the “Asset-Mix”: This means the proportion of various investment classes such as shares, bonds, property, cash and others. In fact, it is this composition and proportion that normally determines the major part (about 90%) of the performance and the risk. The asset mix is even more important than the choice of individual titles, that is, for instance, which shares will be selected. You will need to be very clear about the kind of asset mix that you are aiming to achieve and then evaluate the suggestions of the wealth manager against it. The greater the deviation, the poorer the suggestion. The right choice of asset mix depends largely on your personal preferences and your economic situation. It is a very personal decision. In the following we provide you with three prototypical investor types and suggest respective asset allocation. You may use them as a guideline for your own mix, but you need to work with your advisor to find the optimal asset allocation for your specific situation:



Conservative type

- **Typical goals:** Wants to protect his assets, also in the short-term, and generate considerable income from his assets. His rate of return will not be considerably above the inflation rate.
- **Risk tolerance:** This investor does not like risk at all. He also hates volatility and uncertainty.
- **Investment horizon:** On average, he is somewhat older and has a shorter investment horizon. If he is retired, he may need regular income from his assets.
- **Know-how / effort:** He is not really interested in financial matters and therefore tries to spend as little time as possible on investing.
- **Typical asset allocation:** We believe that stocks should be clearly less than 40% of the asset allocation and bonds plus cash will be a big chunk, typically more than 50% up to 80%. Other asset types like hedge funds, real estate and commodities may be part of the portfolio but would play only a minor role of less than 10%.

Balanced type

- **Typical goals:** Asset protection is important to him, however is willing to trade-off some security for the long-term capital appreciation of his assets. May also require considerable income from his assets. His rate of return should reach 3%-5% after inflation.
- **Risk tolerance:** The appetite for risk of this investor type is somewhat bigger. He may tolerate mild losses for a limited period of time. Uncertainty may be a problem for him if high volatility persists for a prolonged period.
- **Investment horizon:** He could be of any age but his investment horizon is usually more than two years. He is also rarely dependent on regular cash flows from his assets.
- **Know-How / Effort:** Due to his business background finance is not foreign to him but he has better things to do than spend his leisure time with portfolio analysis.
- **Typical asset allocation:** We would recommend to this investor an allocation of stocks of around 40%. Bonds would be roughly in balance with stocks. Cash should be a small proportion of the portfolio. Other asset classes like hedge funds, real estate or commodities could represent up to 25% of assets.

Long-term-investor

- **Typical goals:** Long-term appreciation of his asset-base. Looks for a rate of return after inflation between 6% and 9%.
- **Risk tolerance:** This type of investor has really time on his side. He thinks long-term. He knows that stocks can be under water for a long time until the market rallies again. But he does not care. His mantra is "buy and hold" because he knows that

stocks (and only stocks) will bring him a real return between 6% and 9% over the long-term.

- **Investment horizon:** As his name indicates it is long-term, which will be 10 years or more. The long-term investor does usually not seek income or regular cash-flow from his assets.
- **Know-how / effort:** The long-term investor understands the important point about investing. He will do the research himself if required and is willing to spend some time on investing. Especially in the beginning he will work hard to set-up a portfolio that will ensure his strategy works out in the long-term.
- **Typical asset allocation:** This investor type will hold more than 50% up to 80% of stocks in his portfolio. The rest being a mix of bonds, cash, hedge-funds and real estate. He knows what he is doing and has done his homework in portfolio theory.
- **Note:** *The Value Investor* is a sub-type of the long-term investor. This type is convinced that there will be an additional pay-off in selecting undervalued stocks. His role model is Warren Buffet and he will spend a lot of time researching and analysing companies before he investing. He loves to pay only 50 cent for the Dollar and his mantra is "be greedy when others are fearful, be fearful when others are greedy". His asset mix resembles the allocation of the long-term investor but he will carefully select the stocks which he invests in. The value investor believes that he can make on average even more than 10% return after inflation. The track record shows that only few investors can keep up such a track record over many years. However, some really have done it, including Buffet, with spectacular long-term success.

Lust but not least a word of caution: Be careful with all strategies that try to time the market and change the asset allocation accordingly. This would be for instance a strategy that increases the stock quota when the market is going up and vice versa. Research indicates strongly that market timing is almost impossible and leads mostly to inferior performance. The only exception would be in a situation where one asset class is clearly, by all historical standards overvalued. An example would be technology stocks around the year 2000. All valuation indicators showed that those stocks had reached valuation levels so sky high that it was impossible to avoid a crash. But except for such extreme situations, you should avoid market timing strategies. They are rarely successful and generate a heavy cost burden because of frequent trades.

The second most important factor is diversification: Diversification means that within the investment categories, there is a good mix of various kinds of assets. Thus, you should make sure that different regions, sizes of companies and sectors are represented in your portfolio. Diversification leads to minimisation of risks.

The right currency accents: The major part of the portfolio should be retained in the currency in which you make the majority of your payments. For the sake of diversification,

you can also throw in a few products in foreign currencies as well. Sometimes the currency risks can be secured through specific instruments, but this in turn could entail costs.

Fees and charges are very important over the long term: Asset managers use a lot of imagination to come up with different and complicated fee systems. Sometimes there is talk of an “All-In-Fee”, sometimes there are “deposit charges” or “transaction fees”. To simplify things, calculate the costs as a share of the total invested amount. If the fees are going to be levied per transaction, arrive at an approximate value of the transactions per year and hence also the total fees incurred in a year, which you can then compare with the assets. Normally, this value lies somewhere between 0.5% and 2%. Vast differences are quite common here.

Do not forget hidden costs: Mutual Funds, hedge funds and structured products in particular are extremely important here. These vehicles are usually associated with costs of up to 3% a year, sometimes even higher. If you have something in your portfolio that is made up exclusively of funds, you will be typically incurring at least 1.5% additional costs per year. With a fee ratio of another 1.5%, you will soon be paying about 3%. So, after ten years, around 30% of your wealth would have gone up in smoke in the form of fees. One way out of this fee trap, if one is insistent on not giving up these funds, is to settle for the cheaper “passive” products that are governed by an external index. This includes tracker funds, exchange traded funds (ETF) or index certificates.

Share of in-house products: Another indicator of whether a wealth manager works to serve his own interests or those of his customers is the proportion of investment products from his own employer. Home products are funds or structured products that are issued by the wealth manager himself or in cooperation with another bank. In most cases, these can be recognised from the name of the wealth manager concerned. However, these products often carry a different name and one should search the Internet to find out who is behind any given product family. Such research is appropriate and required especially where several funds with similar names appear in a good investment proposal. An investment proposal should contain only a few in-house products, because it is only in very rare cases that these products will also be the “Best-in-Class” (because almost always there will be providers with better products).

Your personal evaluation factors: You informed the wealth manager that you want to tax optimise your portfolio and hence keep interest payments as low as possible? Or that you have special knowledge of certain sectors, and wish to see shares from this sector in your portfolio? Check if your personal input is considered appropriately in the proposal and make this a criterion in your assessment of any investment proposal.

6. Select one wealth manager, or many

Have you evaluated all the investment proposals with the help of these criteria? By now you will definitely have found one or two favourites for your investment. In some cases, it is useful to distribute the assets across several wealth managers.

By distributing your assets across several managers, you can further reduce your risks, especially for the eventuality where a bank should go bankrupt. Secondly, you can also compare the strategies of the two managers, their research and service. Many differences will become clear to you only as time passes. Also, the competition between the managers will often liven up the business.

You can also use different wealth managers for different core areas. Thus, for instance, you might have got the impression that a particular bank has special competencies in dealing with shares. You can then rope in this bank exclusively for handling the shares part of your portfolio.

In case there are two wealth managers taking care of your wealth with the same strategic specifications, you will have a very good opportunity for comparing their performance over time. After about three to five years, you can then concentrate your entire wealth in the hands of the wealth manager who has shown the better performance.

However, it is useful to have several wealth managers only if you will not be incurring unnecessary additional costs through the exercise. Often, the fees are grouped depending on the investments made or based on the volume of a transaction. In this scenario, it could easily happen that you end up paying up to 1% point more in fees if your assets per bank are too low. These are costs that will have a long-term negative impact on the overall performance.

7. Appendix:

Catalogue of questions for the personal interviews

Questions on the organisation of the bank/wealth manager

- Do you possess a banker's license or a wealth management license?
- What is the legal nature of your institution? Are your balance sheets accessible to the public?
- What is your bank's rating with Moodys or S&P?
- How many customers do you have?
- What is the average volume of investment per customer?
- What is the minimum amount to be invested?
- What is the value of assets under your management?
- In case of an independent wealth manager: With which bank do you create your customers' depots?
- Since when have you been in the business of wealth management?
- Do you have international representation?

Questions on the investment philosophy:

- Describe your investment philosophy
- What are your core competencies?
- What are your weaknesses?
- What sets you apart from other wealth managers?
- Are your performance figures verified by an independent third party?
- What is the process you follow for investments?

Questions on adviser:

- What is your educational background and how long have you been in the field of wealth management?
- To the consultant, directly: What qualifies you to provide consultancy to me?
- How does your personal performance history compare with the relevant benchmarks and competitors?

- Who will be handling my portfolio? (if it is not going to be the consultant who is present)
- How do you communicate with the customer?
- Do you offer an online access to check my account ?
- How often will you be meeting the customer in person?

Questions on fees:

- How are your fees calculated?
- What is your best offer?
- To the consultant, directly: What is your personal remuneration like?

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