BROXTON
CAPITAL ADVISORS

How the Experts Select a Money Manager

Choosing the right Investment Advisor is a difficult decision. This article is intended to help you select a money manager as if you did so for a living (i.e. were a professional investor or pension fund manager).

What is the Difference between an Advisor And a Financial Planner?

Financial Planners (FPs): Beware of Financial Planners that hold themselves out as Investment Advisors. Generally speaking, you do not want FPs to make the final decisions regarding where you are investing. A Financial Planner will help you develop long term goals, determine insurance needs and implement retirement strategies. Their advice is intended to provide you with a road map and general financial advice. FPs normally charge between $200 and $400 an hour and help with insurance, trusts, tax issues and many basics. They may *want* to invest for you, but be careful, FPs are compensated by products they sell, **which may not be in your best interests.**

Investment Advisors (IA): Investment Advisor is a generic designation for a financial professional who manages your money for a percentage of the assets annually. Advisors make determinations on which assets to buy. The terms "**money manager**" and "**investment advisor**" are essentially **the same thing**. Money managers and advisors charge a percentage of the assets under management. *RIA* stands for Registered Investment Advisor and essentially means the Investment Advisor is registered with the State or the Securities Exchange Commission.
Tip: An Investment Advisor will have a track record which demonstrates their historical returns.

What's the difference between an RIA and a Custodian?

A custodian (such as Charles Schwab or Bank of America) is the financial institution that holds customers' securities for safekeeping. A custodian holds securities and other assets in electronic or physical form. Your Registered Investment Advisor is the firm who is managing or overseeing the account. In sum, your assets are held at a custodian while your RIA is managing the account for you.

Getting Started:

Tip: Understand that many managers have minimums. This article assumes that you have at least $100,000 to allocate to a manager.

First, collect a list of potential money managers. The main sources of managers will be from a Broker dealer like Charles Schwab. They can provide you with a list of advisors in your area. You may also look on the internet. Use referrals from friends or relatives.
Second, after compiling a list of potential managers, request marketing materials, a sample portfolio and the returns from each advisor. <u>Do not</u> tell them how much you are looking to invest.

After Receiving The Information, Begin Reviewing The Materials. Ask Yourself…. Am I Getting Real Information?

The first part of gaining a superior understanding is ignoring most of the materials presented to you! This may seem cynical, but consider the fact that most managers are primarily interested in getting you to become a client and they are usually not interested in presenting you with quantifiable facts that would help you determine their current or historical abilities to manage your money. The main question you should ask yourself is: Is this advisor trying to give me a warm fuzzy feeling or demonstrating capabilities? Be prepared to invest 30+ hours researching the best manager.

Look at The Measured Performance. How Does The Money Grow? The Main Benefit the Professional Investor Is Looking For Is The Compounding Of Interest and Capital Gains.

The main benefit that the long term investor is looking for is the compounding of interest and capital gains. Consider the following: An account that starts with $25,000, has additions of $500 per month and grows at 7% per year becomes $515,180 in 25 years. The same account grows to $860,950 if it compounds at 10% per year. This is an increase of 67%. So the primary consideration is the manager's ability to compound your assets through good times and bad. This is demonstrated with the returns of the advisor. The returns should be presented with a comparison index in order to help you evaluate them. If the manager does not have returns it is highly likely that they did not outperform the market or various portions of the market. The annual returns of the S&P 500 are available on the internet. Make sure the advisor is outperforming the market and not just providing generic allocations.

Distinguish Between a Great Marketer and a Great Investment Manager:

This statement is pretty self explanatory. A good Investment Manager will be able to demonstrate how they performed in good markets and bad ones as well. A good marketer will have a lot of enticing materials but will not be able to demonstrate total account returns. A lot of advisors make promises to diversify your assets but will downplay their returns.

Avoid Frauds And Bernard Maddoffs:

This is fairly simple. Do not invest in private securities and your assets should always be held by a well known custodian or bank/broker such as Charles Schwab. The large broker or bank is responsible for holding your funds and maintaining accounting of the account. The advisor is responsible for investing and monitoring the investments. Most advisors will help you open an account with Charles Schwab, TD Ameritrade or other financial institution. This institution will be responsible for providing you with a monthly statement showing your holdings and transactions. If you have any questions call the custodian directly. Finally, use the government resources for checking on the financial professional and firm: Broker Check

Monitor Your Investments:

Use information you have gathered to make initial investments with an advisor. Make sure the money manager understands your goals and risk level. As time goes on, monitor the manager and add money to successful managers.

Don't Be Afraid To Ask For a Second Opinion Or Change Your Financial Advisor

If you are unhappy with your current manager's performance, don't be afraid to ask for a second opinion. There are money managers out there that will evaluate your portfolio at no cost to you. Or if you just have general questions, don't be afraid to ask.

At Broxton Capital Advisors, we have a team of managers that will answer questions, give you a second opinion, and, if given the opportunity, can craft a portfolio that is specifically tailored to meet your goals. www.broxtoncapital.com