Who Benefits From Investment Management?

Look it up. Seriously! Search "What is Investment Management" in the search engine of your choice. The first ten articles in the search results seem to vary on the definition with a few similarly stating that it is the process by which an investor manages their money. However, none of these articles seem to come to a mutual consensus on what asset management is and none of them mention who would benefit from it, or why an investor should care. This article attempts to highlight some important distinctions of asset management, how it can be used, and who would benefit from it.

What is Investment Management

Asset management can be simply stated as a process for managing one's assets, both physical and financial. The management component typically follows a defined set of parameters that directs a person to perform and repeat specific tasks in order to yield a result. As it relates to financial asset management, a person will perform a set of tasks in an attempt to increase the asset's value by investing in different financial securities. This can also be considered as investment management because an investor is directly involved in deciding where to invest their financial resources with the expectation of yielding a positive result.

So why is this important? In the complex world of investment management there are two primary opposing views of the investment management process: active management and passive management. Simply stated, a passive investor is someone who makes an investment into a financial instrument with the plan to let the investment run its course without taking a direct role in how the investment performs. Alternatively, active management is the process of proactively making investment decisions in an attempt to maximize any potential return. While this article will not get into the finer points of the debate, we will provide our point of view. It is our belief that markets are efficient; the companies that operate within them are not. Furthermore, the public information shared about those companies is so vast that the average investor cannot appropriately research, retain, decide, and manage the information in a timely manner to make informed investment decisions for every company. That is not to say an investor cannot research, retain, decide, and manage a few investments on their own. However, as the number of investments within a portfolio increases, so does the investor's time commitments. It is therefore a question of how active should an investor be with their portfolios if they choose to self-direct them, instead of hiring a professional to do it for them.

Investment Management Services

Investment management services will typically vary depending on who considers themselves an asset manager. Fundamentally, there are three broad categories of asset management services that investors use to make investment decisions. They are as follows:

1. Periodicals, Magazines, and Newsletters
2. Robo Advisors
3. Professional Money Managers (aka Investment Advisor Representatives)

The first resource is widely used by self-directed investors who either enjoy researching investments, like to be actively involved with their day to day finances, or believe there isn't one "best source" for information. These self-directed investors are actively involved with how they invest their money, and how they intend to monitor or rebalance throughout the year. Unfortunately this process can be labor intensive and if this group of investors begins to lose interest or other goals compete for their time, then their investment plan can fall apart.

Additionally, the allure of periodicals and newsletters is in the tips, thoughts, and commentary about various investment topics from a wide array of individuals. However, in some cases, the authors of these articles within the publications are not licensed under the SEC's Investment Adviser Act of 1940 due to an exemption. Summarily, the exemption states the "publishers are excluded from the Act if advice is provided impersonally, is "bona fide", and is of general and regular circulation." In other words, the authors of these publications may be providing a point of view without the securities licensing a financial advisor or investment advisor representative is required to undergo by regulatory bodies such as FINRA and the SEC. Therefore if you are someone who reads different periodicals, or newsletters, make sure the person originating the content is a qualified investment professional.

The second resource has been considered a newcomer to the world of asset management. For anyone not familiar with the term "Robo Advisors", they are essentially the marriage of traditional investment management with computer algorithms. Generally, Robo Advisors select investments within their investment pool, invest client funds into the selected portfolio, and periodically rebalance an individual's investments. If it sounds like traditional investing there two two significant distinctions that make Robo platforms different. The first, many subscribe to market efficiency by investing in broad, low cost, indexes through exchange traded funds (ETFs) instead of in specific market strategists. Second, according to Motley Fool, "the primary wealth management service that Robo Advisors offer is periodic rebalancing”.

Fundamentally, computer based trading algorithms have been around for a very long time. Active investment managers have used them to find inefficiencies in different market environments for decades. Recently, companies who have built Robo Advisors have simply commercialized this concept by combining passive investing with periodic rebalancing and adding their own secret sauce. This allows the company to package the platform with a different wrapper and charge a nominal fee for the service. Much more can be said on this topic but we will leave that for a future article.

The last resource can be categorized as the “human factor”. This is where a professional takes on the role of an investment advisor representative and manages a portfolio of financial securities on behalf of an investor who does not have the time to self-direct their own investments. They may also believe that there are opportunities to outperform the broad investment markets. Within this category there are many subsets, but the one many investors are most familiar with is the financial advisor. This person acts as a conduit between the client and an investment research team. Often this person’s responsibilities can include, but are not limited to:

1. Conduct market, or security level, research
2. Invest funds into financial securities based on research
3. Actively monitor and rotate investments in and out of a portfolio
4. Hold investment review meetings with clients

Where a Robo Advisor may take a passive role in portfolio management, many financial advisors subscribe to active management with the goal to outperform a broad market. One major problem with financial advisors and active investment strategies, is the ability to find one with a reasonable investment philosophy and desirable performance track record. For this reason we encourage investors to learn what their investment firm’s unique investment philosophy is, why it was constructed that way, and how it will potentially benefit them if they elect to invest in it.

Conclusion

Asset management can be provided through a mass media medium, a trading algorithm, or with a human touch. However an investor elects to invest their funds, they should understand each of these strategies bears their own risks. There isn’t an investment strategy that will protect an investor from losing money, or guarantee a positive return. To this end, an investor who enjoys the day-to-day research, trading, and monitoring of their investment portfolio may be better suited to a life of self-directed investing. Though if a day comes where they do not have the **skill, will, or time** to perform such tasks, then they may be better suited to consider one of the other asset management services available to them.

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