Selecting a Fund Manager

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Subject Matter: <u>Online Training Help</u>

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In Choosing Your Stockbroker….

…. There are many criteria investors use to select an appropriate fund manager. Some go on brand name alone. Others use a more scientific method incorporating performance tables, research ratings and staff credentials. One criterion investors often overlook, but one that is critical to the performance of the fund manager, is investment style.

Choosing
a 'Stylish' Fund Manager ...

If you have never invested with a fund manager, or if you are in the process of looking for a new fund, choosing a manager with an investment style and objectives that closely reflect your needs may determine how happy you will be with your investment decision.

What is 'investment style'?

Investment style is, *in simple terms*, the way a fund manager invests your money. There are many different styles used by managers, however, the most common can be summarised into two broad categories - 'active' and 'passive'.

ACTIVE

Fund managers that employ an active investment style continually monitor the markets and change the investment mix of their funds depending on where they see the markets heading.

Active managers have the ability to substantially alter the investments of a fund in anticipation of opportunities for higher returns.

They are also able to protect the funds by investing in more defensive investments, such as cash, if they predict a fall in the stockmarket.

PASSIVE

Passive managers generally set the investments of their funds according to a benchmark.

Rather than making changes to their funds in line with the markets, they only change the investment mix to keep their funds in line with the benchmark.

Index funds are an example of a passive management style.

Active or Passive - what's best for you?

How do you decide which investment style is best for you? Well, it really depends on your attitude to investing.

- Passive managers have a 'set and forget' approach to investing. In general, they provide investors with a return that is broadly in line with the market, so you will generally have an indication of the performance of the fund from the way the markets are performing.

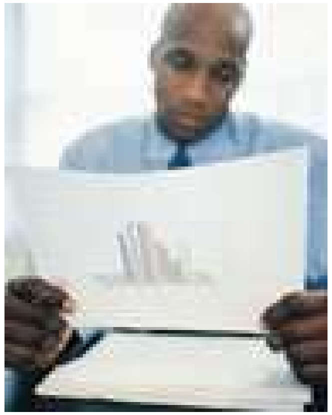
- Passive managers experience good returns when the market performs well. However, when the markets are more volatile or providing poor returns, passive funds are unable to protect your investment against these market conditions and performance can be disappointing.

Key about Passive managers…

…. Index funds have been promoted as more cost effective than actively managed funds.

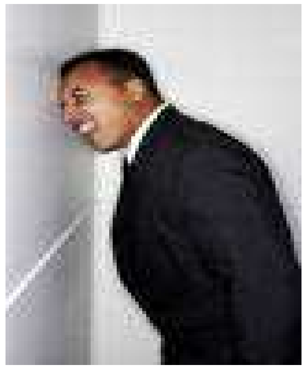
Generally, this is because passive fund managers undertake significantly less research than an active manager and therefore need to employ fewer staff.

For the Active Manager



- The Active Manager often deploys what is called value investing (*Read more in "Becoming your own Analyst")*. They research the markets they invest in and determine the market's relative value by analysing many different characteristics.

- Active managers seek to purchase investments when their prices are low compared to the income they can produce, and sell if they no longer represent good value. Using this method they aim to achieve competitive returns over time.



How about this for thought?

PHILLIPE Cartoux alarmed colleagues in the Paris stockbrokerage, Ferri, when he started throwing darts against the company notice board. Surprise turned to amused outrage when everyone realized that he was targeting the share listings page of a financial newspaper. It was his way of picking five shares for the firm's annual investment competition.

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For a broker, who makes his living advising clients which stocks to buy, it was an act of heresy. Unabashed, Mr. Cartoux, who is the firm's chartist, said that he is confident of beating the majority of his colleagues.

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'Picking shares has got nothing to do with analysis," he said. "It is like tossing a coin - luck."

- By Iain Jenkins International Herald Tribune, Saturday, January 29, 1994

Behind the joke is a serious point.

Are highly paid financial advisers and fund managers who cost you annually really worth the money?

Or would you be better off leaving investment decisions to a dart or, more scientifically, to a computer that runs a fund that simply mirrors the performance of a market index?

The answer is an open secret in the world of financial advisers.

Between the dart thrower and the stock-picking fund manager there is not much to choose.

Investment games in financial magazines that pit a blindfolded monkey against top fund managers show that the monkey wins almost as many times as it loses.

However, the outcome between the index and the fund manager is much clearer.

The fund managers, sitting in mahogany panelled rooms in well-cut suits, are consistently beaten by the computer which passively tracks the S&P 500 in the United States, the FTSE in the United Kingdom, the Nikkei in Japan, or any other index.

So who does this affect you?

The figures suggest that the indexes often perform better than half of all fund managers.

It is said that over a decade, investors would have got a 40% average real return by tracking the index in their chosen market. This is far better than if they had invested in the average mutual fund.

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So why do investors pay for expensive fund managers who can't even beat the index?

Boredom as a Factor

The answer is partly that index funds are seen as boring.

They are not going to do anything spectacular. For many investors the lure of a managed mutual fund is the upside.

With a lot of luck and some good judgment investors in "actively" managed mutual funds can see spectacular gains.

Making sense of it all

Does this mean that the fund managers are doing their job better? Not necessarily.

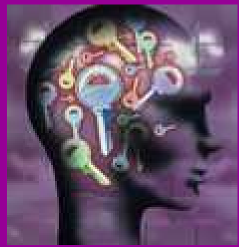
Many funds have simply broadened their investment strategy. In the current bull market this, more than an improvement in stock picking, explains how they are beating the index.

If you therefore have a fund manager who can't beat the index consistently; you may want to weight this against the heavy fees you are paying.

The Process

It is important that we get the process of selecting a personal stockbroker right from the onset.

If you are currently engaged with one, this can provide you an assessment guide in evaluating the relationship going forward.



The following questionnaire was carefully constructed to reflect the key needs of informed investors and would require a line-by-line response to each question by you...

SYSTEMS & SERVICE

Does your fund manager have a system that is independent of the owners?

- What happens if stocks are sold and the MD/GM is not around?
- How many signatories does the firm have?
- What is the signing rule?

Systems & Service …(2)

- How many qualified brokers does the firm have?
- How many key staff does the firm have?
- Can order be made via phone, text or fax?
- Can orders be made via any electronic means and what is the response time?

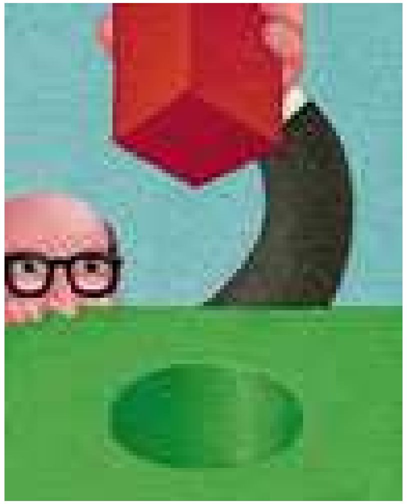
Systems & Service …*(3)*

- Can account positions be viewed by clients?
- Would monthly portfolio evaluation be made available to the client latest by 1st week of every month?
- Could the soft copy (Microsoft Excel Document) be made available to the client or electronically (e-mail or online) or hand delivered to designated addresses.

BANKING TRANSACTIONS

Banking Transactions

- What bank does the firm use?
- What service advantage does that offer you?
- Would orders be executed before funds have value? (Where there is un-cleared effect)
- Would COT charges be passed on to you?
- Can cheques be lodged into any of firm's bank branches?
- Can you receive value on any cheque lodged into our stock broking account?



BROKERS COMMISSION

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Brokers' Commission

- What is the normal brokerage fee?
- What are the other statutory charges?
- What is the best rate your organization is willing to concede?
- Are there benefits on volume trading?
- Is the firm willing to review the applicable discounts upward as the volume of the transactions from the clubs increase and are you willing to negotiate specifics now?

SUPPORT SERVICE

Support Service …*(1)*

- Does the firm have a functional research unit?
- What categories/forms of information could they provide (Information that would inform buy or sell decisions)?
- Does the organization have a form of newsletter/market watch/bulletin?
- Is the organization able to help with likely problems that could crop up from the registrars/CSCS?

Support Service …(2)

- Does the firm have a functional website and if not when will this be in place?

- Does the firm have a format for reporting accounts status to the clients ?

- Does the firm provide tools and aids to help clients understand services better?

Breaking News…..

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With Effect from April 24, 2007

- A new minimum capital base has been approved by the Federal Government for all capital market operators in the country, with December 31, 2008 as deadline.
- The Federal Ministry of Finance also approved a reduction in transaction costs in the capital market by about 40%.
- Under the new capital base regime, which takes immediate effect, the minimum paid up capital for issuing houses has been increased from N150m to N2bn, while broker-dealers' capital base has been increased from N70m to N1bn.
- Clearing and settlement agencies are now to have a capital base of N1bn up from N500m while registrars are now to have N500m, up from N50m.
- Underwriters, who before now had a minimum capital requirement of N100m are now to have N2bn, while that of fund/portfolio managers has been increased from N20m to N500m. That of corporate sub-brokers with a current capital base of N5m was increased to N50m.

Changes *continued……*

- The Finance Ministry also announced
  - a new minimum capital base of N2 billion for market makers;
  - an 80% mandatory underwriting for Public Offers;
  - a mandatory underwriting of all offers; and
  - a code of conduct for shareholders' associations in the country.

- This, according to SEC, is to reduce the incidence of under-subscription and ensure that the issuing houses and stockbrokers have higher stakes in the issues they bring to the market

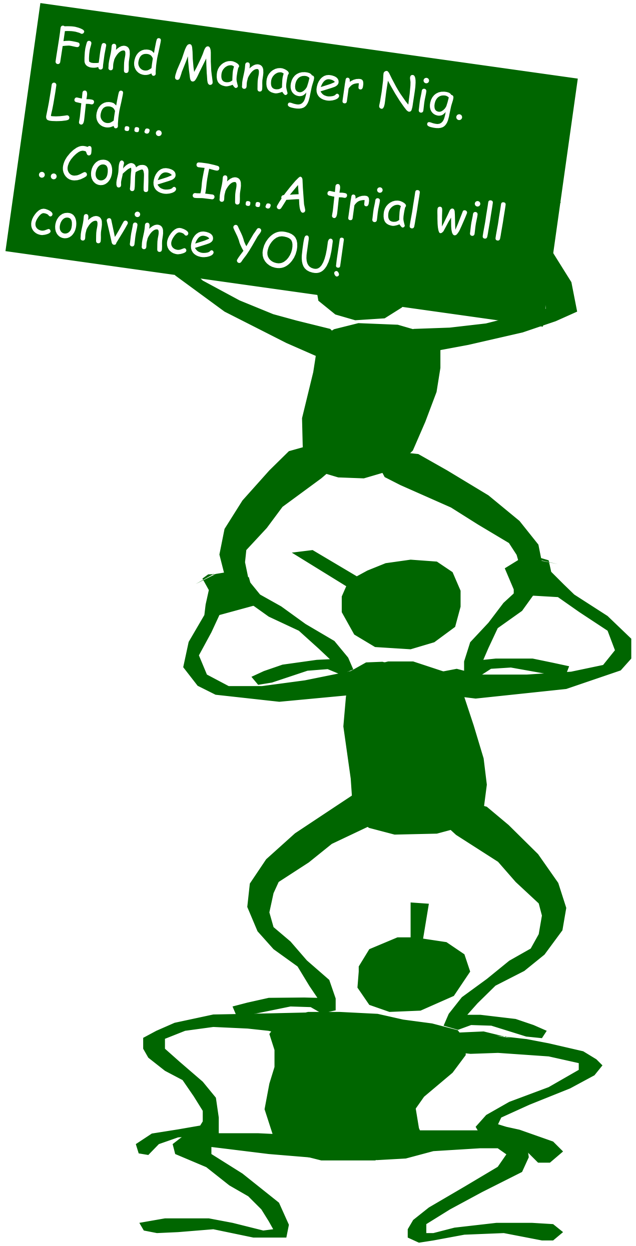
- By the approvals, average equities transaction cost in the primary market, which currently stands at 6.92%, has been reduced to 4.32%, while transaction cost on bonds has been reduced from 7.03% to 4.79%.

- In the secondary market, total transaction costs on equities have also been slashed. For instance, equities transaction cost on the buy side has been reduced from 4.07% to 2.36%, while the commission on the sales is now 2.65%from the earlier cost of 4.12%. This took effect from April 24, 2007.

In Choosing Your Stockbroker….

….Find people who give you the feeling that they truly understand your goals and your limitations!

Don't be taken in by the Advert



- **Learn to Read between the lines….**

- **…And always use NSE-Accredited Fund Managers ONLY.**

List of Fund Managers….

….Kindly go to the Resources Session to view the List of the Fund Managers

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Other Free Training Courses Online – (1)

- **Making Money in the Nigerian Stock Market** – A Foundational Guide

- **Starting out with Confidence**

- **Becoming your own stock analyst**

- **Selecting a Fund Manager**

- **Clubbing to Wealth**

Free Training Courses Online – (2)

- Parable of the Monkey Market
- Interpreting Stock Tables
- A Fools Guide to Investing *– B. Oni*
- Stock Selection Process
- Be a CEO of your Own Money *– P. Babalola*
- Monetize Your Certificate
- Other E-books available online

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