

investor's notebook by Stephen Cranston

Good advice and bravery



🐦 @scranton

I imagine if Coronation turned around and said it was proud to have taken fiduciary responsibility for your money for 20 years – but had decided that it was never competent to run your savings in the first place, and had asked for help. Improbable?

Well, it is not so different from the case of hundreds of financial advisers who have now accepted that investment is not their core competence, and so have turned to discretionary fund managers (DFMs) for help.

like hiring an advertising agency without a creative department.

I would have much more faith in businesses that have well-respected investment professionals on the team such as Paul Marais at NFB or George Herman at Citadel.

However, at least those financial advisers whose core competence is sales (in my view the majority) can now have access to a wide range of expertise. They can either take a product off the shelf from the more reputable DFMs, such as PortfolioMetrix, Analytics or Morningstar Investment Management, or they can work together to tailor a range of portfolios for their clients. Analytics even offers esoteric services such as setting a governance budget.

DFMs can hide in the shad-

advisers the opportunity to offer bespoke solutions to their clients.

The big institutions have separated their DFMs from their traditional multi-managers because the front end has to be different. Retail advisers still expect an extrovert, hard-drinking business development manager from the institutions, and of course the financial planning industry remains almost entirely white. The likes of Old Mutual, Sanlam and Stanlib need a DFM to service their own tied agency force.

Courageous course

Pension funds, in contrast, expect to interact with a more diverse group of institutional salespeople and consultants, and the interactions are undoubtedly more cerebral.

Institutions also expect attention to be paid to black managers, as there is increasing pressure from the financial services charter to do so. Sadly, mainstream DFMs have been poor supporters to this sector.

It has left a gap in the market, now ably filled by Fatima Vawda's 27four multimanager. She has courageously avoided the easy route of just packaging the big-name brand managers which are the standard fare for DFMs.

How long will it be before the public demands access to DFMs directly? Or before direct DFMs are introduced into the market? The closest would be Outvest in the Outsurance group. It is very cheap for the public to invest in the company's simply constructed index funds. Warren Ingram, an

enterprising adviser at the Galileo Group, for example, is packaging Outvest products as a way to expand his client base.

Financial advisers still only serve a tiny, top layer of the population. Some way needs to be found to bring advice to the broader community. ✕



123RF/aurielaki

Hiring a financial planning firm that lacks investment expertise is like hiring an ad agency without a creative department

Of course, helping you with asset allocation and manager selection is only part of the financial advice process.

I accept that there is a role in a financial planning firm for client service staff who can help you keep calm in a crisis. But hiring a financial planning firm that lacks investment expertise is

ows, as most of their funds are in model portfolios. These were once called wrap funds, but for a decade went out of fashion. When capital gains tax was introduced in 2001, every time a unit trust was sold within a wrap fund (but not within a fund of funds) it was liable for tax. But wraps are back, as they give