

DISCRETIONARY FUND MANAGEMENT » DFM can help an IFA's performance by assisting in the juggling of roles

Finding the right fit with DFM



CARL LAMB

It is a difficult world out there for IFAs at the moment. In an industry that was once focused on sales and commissions, today's IFA is expected to juggle a wide range of roles, from family confidante to cashflow analyst to investment manager. But, should an IFA attempt to be a jack of all trades?

The ideal IFA is a highly qualified, empathetic and creative individual who has the ability to think both logically and laterally about how to serve the best interest of the client.

Good IFAs will focus on the holistic viewpoint, looking at the longer term, considering lifetime goals and needs. An awareness of the movement of markets is integral to their service, of course, but they cannot both watch the horizon and maintain a minute-by-minute microscopic study of their clients' investments.

A good IFA is therefore not a fund manager. Fund management is a job for specialists – technical boffins with their noses pressed to their screens watching every shift in the markets and analysing every nuance of changing moods in global affairs. An IFA who attempts to be both a lifetime financial planner and a fund manager will rarely have the qualities (or the time) to do both well and runs the risk of failing on both fronts.

Turbulent

However, with markets at their most turbulent for decades, clients are demanding a more proactive approach from their IFA. In response to this, successful firms are recognising that external investment managers can bring a level of expertise that best protects the client's interests and has a better chance of delivering growth.

Discretionary fund management (DFM) has long been available to those who have substantial fund portfolios. However, historically the cost of this service has tended to deter the small and medium investor.

Investors who use a full DFM service have the benefit of a designated fund manager who will select a tailored portfolio that is unique to the investor's own needs and wishes. This is the luxury end of the market with portfolios monitored continuously; reaction to market moves is instant. This type of service is designed primarily for those with portfolios approaching £500,000 – rare enough in today's challenging times.

However, it is not all bad news for the smaller investor; it is possible for financial planners to respond to the need for reactive investment management from a wider range of investors through design of a slimmed-down version of a DFM.

Another key element of this kind of service, which is essential to get right, is the evaluation of the client's risk profile

For the IFA, choice of partner is, of course, vital and it is important to carry out rigorous due diligence before finally settling on the companies to work with.

Most importantly, the provider of the platform and the DFM service have to be able to work together from the outset to ensure that delivery is seamless, with portfolio changes possible at the touch of a button. Without this efficiency it is not possible for all parties involved to deliver the service in a cost effective manner.

Another key element of this kind of service, which is essential to get right, is the evaluation of the client's risk profile. Potential investors must undergo a detailed evaluation to assess their attitude to risk and their requirements in terms of returns. The assessment process can be carried out using industry-standard methodologies and the resultant risk score, combined with qualitative information gleaned through the fact-find process.

This will indicate which investment portfolio is most suitable and investors can be matched to them accordingly.

From the investors point of view they are having the portfolios managed by professional investment managers and 'rebalanced' at least quarterly to maximise growth – more frequently if market changes dictate it (as they did in August) – and they can view their portfolios 24/7 through the platform.

Investment management will always remain the cornerstone of any financial plan and it is a clear duty of any IFA to ensure that clients' portfolios get the best possible chance of achieving optimum growth. Using the right people with the right skills to achieve that growth within reasonable cost parameters is a win-win situation for both clients and IFA firms.

DFMs and other managed portfolio services can not only deliver on performance, they are also cost-efficient in terms of business overheads. Above all, managed solutions provide the expertise and reactivity that clients demand and enhance the reputation of the IFA that facilitates their availability.

Carl Lamb is managing director at Almary Green

Fit: clients are seeking a more pro-active approach from their IFA

