Advice: Watch Your Wealth Manager

How to Keep Your Banker from Disastrous Mood Swings

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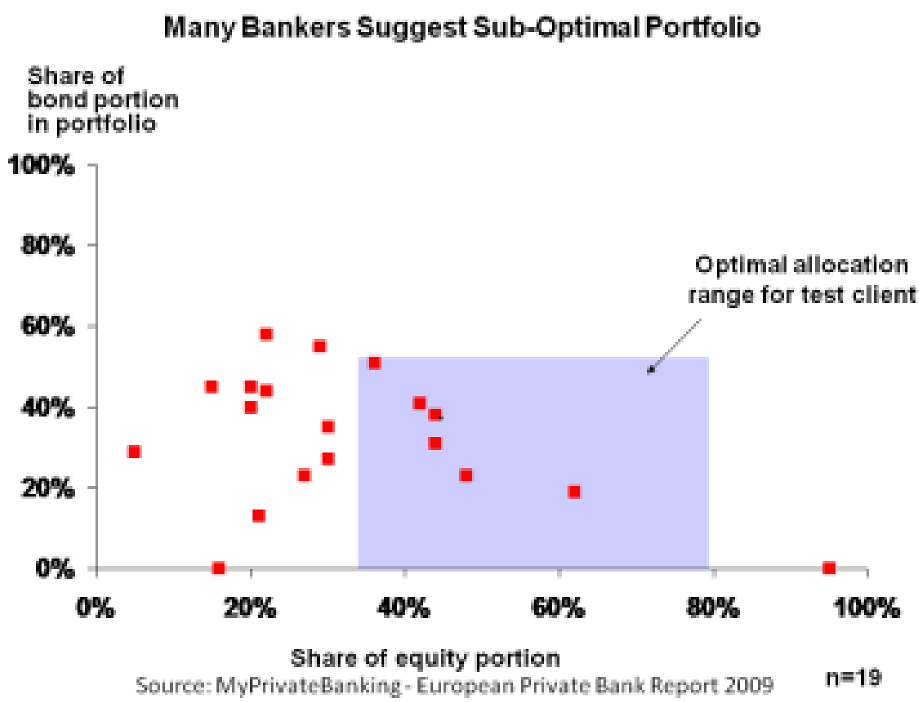

Have you also lost a ton of money with complicated structured products, hedge funds, private equity and financial stocks? Has your bank recommended and promoted these securities right when the markets were approaching their climax in 2007? Well, you are not alone. But now the tide has turned. Many clients now find government bonds and cash in their portfolios or on the weekly-recommended lists.

More than half of surveyed bankers, as per a recent MyPrivateBanking study, have suggested prospective clients an overly conservative asset allocation. About one-third of them recommended a potential client, who had indicated a long-term horizon and the willingness to shoulder some risk, only 20% or less investment in stocks. Another survey shows that 20% of clients' portfolios were moved to a lower risk profile in the first quarter of 2009, just when the market hit the low point.

This seems like a recipe for disaster right out of the text book on behavioural finance: In a bull market your banker recommends a lot of risky products but once the market has tanked, he is the most conservative adviser in the world. This is exactly the unsteady portfolio strategy that leads to underperformance and poor results in the long-term.

But what can you do about those moody bankers - being overconfident during the boom and panicking after the crash? Most importantly, do not assume that they are smarter than you. Make yourself heard and do not hesitate to give clear instructions to keep them from wasting your wealth. We have five key recommendations for you:

1. As famous investor Warren Buffett remarked: "Be fearful when others are greedy, and be greedy when others are fearful". So, do not let emotions cloud your decision making: A bull market should not make you overtly happy and a bear market should not set you in panic, neither should this happen to your wealth manager.

2. Your overall strategy as well as your general risk tolerance should always remain the same (with the possible exception of your personal situation having changed). Your wealth manager is there to execute this strategy – regardless of the market cycle.

3. Follow your banker or wealth manager closely – always. Question their decisions, especially in times of strongly growing or falling markets. Get on their nerves. Pepper them with questions. Make them earn their money.

4. Do not buy into securities you do not understand or which your wealth manager cannot reasonably explain to you. This is especially true for complicated structured products or black-box hedge funds. Such products will come back and haunt you during times of crisis.

5. Do not hesitate to ask your banker to revoke any trades you have doubts about. If you feel that your wealth manager does not execute your agreed upon strategy, do not hesitate to find a new adviser.