

Advice: Results of Private Banking Survey

## How to Improve Your Investment Proposal

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At the height of the financial crisis, early in 2009 MyPrivateBanking conducted a mystery shopping study among the top-20 European wealth managers. The investment proposals of many of these banks [revealed significant weaknesses in the process of determining the right asset allocation](#) for a potential private banking client. Many wealth managers recommended an extremely conservative asset allocation despite the test client clearly indicating a long-term outlook and a tolerance for risk. As the stock markets surged quickly after the crash, the proposed asset allocations made it impossible to participate in the market rebound.

However, client and wealth managers can do a lot to ensure that the proposal meets the clients' needs and risk profile. We have compiled a list of the most important measures for an asset allocation that is not driven by the sentiment of the day but by objective criteria capturing the the goals and situation of the client.

Recommendations for clients:

- Analyse the proposal very thoroughly. The proposal is what determines your future investment strategy and henceforth your future risk and returns.
- Make sure the investment proposal matches your investor personality. If you are a very conservative investor who tries to avoid volatility, make sure you receive a very conservative portfolio proposal. On the other hand, if you have a long-term outlook and can stomach some volatility go for a more aggressive asset allocation.
- Have a say in those investment decisions. So if you can spare some time and have a minimum level of know-how in financial matters go for an advisory mandate and avoid a wealth management mandate.
- Avoid market timing and pro-cyclical behaviour: Bankers are also just human beings, subjected to psychological

pressure. So if the market turns down they tend to become very bearish and when the bull market roars upwards many bankers will suggest a bullish strategy. But these swings in behaviour make rarely sense. Stick to your strategy and make your banker stick to it as well.

- Insist on an open product platform and specifically index products: Every bank should offer to their clients the broadest possible range of products also including passive products like ETFs. It is cheaper, it is better and in the long-run will make a huge difference for your portfolio performance.
- Check the investment process. Be clear about the timelines and milestones for building or changing your portfolio. Check if your manager follows your instructions
- Tell your adviser when circumstances have changed. For instance, in case you face an extraordinary expenditure or want to change your tax residency ask your adviser early enough if this would require changes in your portfolio.

#### Recommendations for banks and wealth managers:

- Listen to your (potential) client and make the strategy accordingly. There is only one factor that should drive your investment proposal: The client's needs. We met many excellent bankers, but also many bad listeners who came up with a proposal that seemed to be made for a very different person. Take your time to thoroughly assess your client and it will pay-back.
- Don't sell market timing. Most likely the portfolio managers at your bank are not good at market timing. Volumes of analysis and research show that the majority of mutual funds and portfolio managers are not able to add value through market timing. They may even waste client fees unnecessarily by making too many trades.
- Explain your client the reasoning of your asset allocation. If the client does not understand the rationale for your portfolio allocation he will get very quickly unhappy when the performance deteriorates at some point.
- Stay your course: If there are extreme market movements, strong bull or bear markets, the pressure mounts to become bullish or bearish yourself. Most likely these changes of strategy – as is the case with market timing – do not add

performance. In many cases this kind of behaviour leads to underperformance of the market.

- Don't waste your client's time: Keep in mind that a potential client probably visits quite a few banks to select the right partner. Try to keep the process efficient. You should be able to receive all required information after a first personal meeting in order to write a proposal. If the client finds the overall strategy and asset allocation appealing more meetings and discussions will follow.