ETF insight

MAY 22, 2013

Kim Inglis, BCom, CIM, PFP, FCSI, AIFP

Portfolio solutions for busy investors

Discretionary portfolio management offers peace of mind

Since the 2008 financial crisis, active management has been a hot topic. Although many investors believe it to be the best approach for the current market environment, statistics don't support that assumption.

Standard & Poor's S&P Indices Versus Active Funds (SPIVA) Scorecard found that most active managers in all categories, except large-cap growth and real estate funds, underperformed their respective benchmarks in 2012. In fact, performance lagged behind the benchmark indices for 63.25% of large-cap funds, 80.45% of mid-cap funds and 66.5% of small cap funds.

A report from the Bank for International Settlements, found that market volatility across major industrialized countries has been historically higher since about 1970. When excessive, volatility tests the mettle of even the most steadfast investors. Some have responded by choosing active management as their sole response, when volatility should be considered as just one reflection of the risks in any investing.

That's not to say that active management should be rejected. Unaddressed volatility can damage a portfolio and so its impact must be mitigated by appropriate tools and actions. However, active management is not the only answer. Many investors prefer their portfolios to be either active or passive depending what the circumstances require, and have been turning to discretionary portfolio management as a result.

With discretionary portfolio management, investors delegate day-to-day investment decisions, within agreed guidelines, to a professional Portfolio Manager (PM). That makes the overall portfolio management much more efficient. As the PM is responsible for making final trading decisions, action can be taken immediately on available information without having to track down the investor for approval. For time-pressed investors, such as business owners and busy executives, this makes sense.

In a non-discretionary structure, the Advisor with fifty clients must contact each of them to get buy or sell approvals. Depending how long it takes to reach all the clients, much of the benefit of the trade may be lost during the delay. For clients in discretionary accounts, the PM can act both tactically and in a timely fashion to seize buying opportunities or sell positions.

Rebalancing regularly in a changing market environment is important; otherwise asset allocations can be thrown out of proportion with detrimental long-term effects. Discretionary accounts make such rebalancing much easier because PMs can pare positions or lock in profits as needed. As well, discretionary portfolio management takes emotion out of the equation. Many investors find it easy to buy positions, but difficult to sell when it's time to pull the trigger. Without a personal attachment to holdings, PMs are better equipped to take appropriate action based simply on relevant facts.

© Copyright 2013 Kim Inglis

Portfolio solutions for busy investors

Continued from Page 1

At the end of the day, investors need flexibility in their portfolios to manage volatility. While a reliance solely on active management is not the right approach, neither is it appropriate to remain idle. Investors can gain freedom from stress with a discretionary portfolio management approach that has the flexibility to deal with market fluctuations while staying focused on long-term goals.

Kim Inglis, CIM, PFP, FCSI, AIFP is an Investment Advisor & Portfolio Manager. The views in this column are solely those of the author. www.kiminglis.ca

© Copyright 2013 Kim Inglis