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OPINION:

Shop Around When Choosing A Money Manager

Analyzing Performance Numbers Is Not Enough. Remember The Human Element

By Maggie Craddock, former lead portfolio manager

NEW YORK—These days more than ever, investors are weighing the impact current events have on their investment portfolios.

Talk of the next Federal Reserve rate cut or the dollar's next move routinely leads to discussions about the impact of these events on portfolio performance.

Meanwhile, the recent personnel cutbacks at Merrill Lynch and others are seen as the capricious hiring practices of a few investment firms, not as an indicator of future capital market performance.

However, these layoffs may have as significant an impact on some portfolio returns as a change in the federal funds rate. Why? Because money management is one of the most people-intensive businesses in the world today, and when the investment professionals are under pressure, your returns may be, too.

IRONICALLY, although the human element of the money management industry is perhaps the most integral to investment returns, it is often the least emphasized when portfolio managers communicate with clients.

Why don't investment professionals stress the people factor and its contribution to investment? Perhaps because being "human" involves the risk of dealing with emotions, sometimes messy ones.

That's why client presentations, whether to an institutional board of directors or to an individual planning a retirement account, tend to emphasize technical expertise, while sanitizing any reference to the human element of the process.

Vague references to superior "communication" among investment committees are sometimes sprinkled into investment literature, but the clients' attention is usually directed to specific trades, performance numbers—anything that can be easily quantified.

IN EXTREME CASES, the investment process itself is described as a completely quantifiable process. After the Long-Term Capital Management debacle it was revealed that the hedge fund's investment decisions were made using a so-called "black box" strategy, based on a formula intended to minimize human input.

Common sense tells us that the decisions on what investment formulas to use and how to use them require the judgment of human beings. However analytical and numbers-oriented investment decisions may seem, there's just no getting people out of the process.

My own experience as the portfolio manager of a top-performing mutual fund gives me empathy for what investment management professionals are going through in this volatile market.

During the years I spent running money, I spent my typical workday at 20,000 feet, simultaneously editing a presentation, calculating the current market value of the portfolio's holdings and praying my coffee wouldn't spill.

I watched one portfolio manager, a top performer in his asset class, sacrifice two marriages in his relentless pursuit of his craft.

A MANAGING DIRECTOR by his mid-thirties at a top investment firm, he soon left to be a partner in a lucrative hedge fund.

Although he amassed a great deal of wealth marketing exotic investment strategies, he grew estranged from his children and became a heavy drinker, as he struggled with the stress of his punishing schedule and appearing relaxed when entertaining clients.

When the market for his hedge fund grew sour, he took it hard.

He left his hedge fund and returned to mutual fund management, although he secretly felt this slower and more generic type of equity investing was beneath his superior skills.

He tells great war stories, presented with flair, and his clients love him. He spends a lot more time in the bar than on the trading floor these days.

Who knows? In this market that may be a superior strategy.

But this is not the investment style his clients think they have hired.

WHAT CLUES should you, as a client, look for in choosing a money manager?

First, determine whether your investment representatives provide you with the best information possible, or simply try to hold on to your business at any cost.

Do they report the same performance numbers over the same time periods consistently, or do these performance indicators change to put the manager in the best possible light during a challenging market?

Do they answer your questions about alternative investment strategies in a straightforward manner, or is everything a sales pitch? Are they direct about addressing their mistakes, or is there always a defensive twist to their explanations intended to convey that they are beyond reproach?

Second, find out about the turnover rate in the organization. Is it a positive working environment? This means more than most people realize in terms of investment returns.

If turnover is low, is it simply because they pay top dollar for individuals willing to do anything to get rich, or is it because this is the type of organization people want to be associated with for a significant portion of their careers?

PERHAPS MOST IMPORTANT, how much access to information concerning the decision-making process is disseminated throughout the firm? Remember, the more information client service people have, the more information they can provide their clients.

Since information is power, an organization's failure to invite open debate concerning the investment process is a signal that power is jealously guarded in the hands of an elite few. This is one of the classic red flags for potentially poor organizational morale.

When the market is volatile, it's harder to make money. That means it's now more important than ever to pick a good portfolio manager. But when shopping for someone to oversee your assets, it's not enough just to follow the performance numbers in the paper.

Remember the importance of the human element as well.

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OPINION ARTICLES and letters to the editor are welcome. Send submissions to Sally Heinemann, editorial director, **Bridge News**, 3 World Financial Center, 200 Vesey St., 28th Floor, New York, N.Y. 10281-1009. You may also call (212) 372-7510, fax (212) 372-2707 or send e-mail to opinion@bridge.com