



# What Your Money Manager Don't Want You To Know

By Eng Tiang Chuan

Money managers have to cope with numerous limitations and constraint, and investors should be wary and consider these restrictions when deciding who would be the better choice in managing their wealth.

Investors have short memories. The financial crisis is now but a distant memory. This 'Great Depression' has revealed many and overturned many long-held beliefs. Mr Alan Greenspan, the champion of free market, admitted in front of Congress that his belief is wrong. The obscene bonuses the financial institutions are dishing out in the face of government bailouts have angered many. On the local front, the image of financial institutions was tarnished by the Minibonds saga. Against the backdrop of economic panic and massive government stimulus was the realization of misplaced trust in money managers.

Money managers face many constraints and dilemmas during the course of providing wealth management. These issues could create conflict of interest and may be detrimental to the client, the very people who engaged the managers to better manage

their wealth.

## SALES TARGETS

In many sales related jobs, a sales quota is set to ensure that minimum business is secured and to encourage the sales personnel to strive for more deals. It also justifies the salary the sales personnel is drawing. Many financial institutions also practice the setting of sales targets. This could create many problems for wealth advisers.

By setting sales targets, money managers could be pressured into selling products instead of providing advice or managing portfolios. The clients would clearly be disadvantaged. In the Guideline To Fair Dealing issued by the Monetary Authority of Singapore (MAS), product quota is listed as an example of problematic remuneration structure that is not in line with customers' interest.

During the course of the financial crisis, many current and ex-money managers and clients wrote in to the major dailies to highlight this problem of facing sales quotas. Below are samples of the actual words from the reports:

"Often though, consultants are under pressure to sell certain products so as to hit our sales targets." - LH Tang, Today, 2 October 2008

"Monthly or quarterly sales targets are still given to these representatives, and non-performers face increasing pressure..." - Kevin Young, The Sunday Times, 3 May 2009

"...There was always the pressure to meet any shortfalls in the designated monthly quota..." Ex-Financial Consultant, Today, 14 October 2008

It was reported in the March 23, 2010 issue of The Straits Times that a former bank executive was jailed for seven months for forging documents and transferring client's cash to other accounts to meet monthly targets. The former bank executive forged application forms "as he was facing pressure from his management to meet performance targets".

The letters and jail sentence should prompt investors to ask - how can clients get good and proper advice?

### TRANSACTIONAL BUSINESS MODEL

Many of the so-called wealth advisory is built upon a transactional business model, that is, the business relies upon new transactions or products sold. At the extreme, churning is the end result as the money manager engages in a series of buy and sell, not to benefit the client, but to generate commissions or to hit sales targets. Such practices can be utterly outrageous. A client of mine was advised by his relationship manager to surrender an Investment-Linked-Product (ILP) meant for his retirement. He had bought the product during the market downturn. The relationship manager proposed 'switching' into another product after the market rallied. How the relationship manager came up with this advice remains a mystery.

Investors can find it difficult to differentiate whether the advice given is sound. Alarm bells should go off if most transactions or switches generate some form of commission.

### NOT BUSINESS OWNERS

Money management is a very personal form of business. Ultimately, the manager has to answer to the client. If the manager is an employee, the manager will have to answer to his or her superiors as well. This means that there are Key Performance Indicators (KPIs) to be met. KPIs will be in line with the organizations' interest but may not be to the investors' interest.

Retrenchments were a common sight during the crisis. Many wealth managers got the pink slip at the worst possible time

when investors needed the most support and advice as their portfolios tumbled. Retrenched money managers will not be able to help their client do so even if they want to. Employed money managers do not have a say in the financial institution's headcount decision.

Even during the good times, money managers are not spared movements. Non-performers are often asked to leave while the performers are promoted to higher rungs. How many money managers or relationship managers have you had in the last few years?

Adding to the problem is the phenomenon of wealth managers playing 'musical chairs'. In the competitive local wealth management scene, it is not uncommon to find rivals dangling top dollar for the best producers. These sought-after money managers have responded by moving to rivals, bringing their clients with them. Investors should ask if their interests have been compromised in this game of 'musical chair'.

### PRODUCT PROVIDERS

The financial industry in Singapore is constantly evolving. Various product providers have ventured into wealth management or vice versa. With this expanding and merging of business offerings, the issue of conflict of interest emerges. The problem is compounded by the need to meet Sales Targets and KPIs. Would a money manager be free to propose a solution from other third party providers or 'forced' to opt for an in-house solution in order to hit the quotas?

### MARKET TIMING

Investors have a common misconception that people in the money management business have the ability to time the market. Contrary to popular belief, an overwhelming majority do not possess such an ability. If they do have such talents, they do not have to continue managing other people's money but will be busy managing their own. How many money managers have successfully avoided the financial crisis? If money managers can time the market, there probably

won't be any money managers left trying to help others manage their wealth. However, money managers would be more than happy to have such a reputation. It would only aid their business.

Those who are serious about the money management business would explain to their clients the limits of their ability and not mislead them. But alas, a big number of investors would probably not engage their services if they know the truth. It is not sexy enough.

### CONCLUSION

Despite projecting a professional image, many money managers may not be what they say they are. Practical limitations and constraints can hamper their ability to provide good advice. Investors can put themselves in the money managers' shoes to have an idea of how the money managers might react when faced with the restrictions. Investors should seek out money managers who are not constrained by the limitations. What would you do if you are a money manager? ■

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