Every company needs a money manager and so might every wealthy investor

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Managing an investment portfolio was relatively easy in the 1980s and 1990s, but there has been a significant increase in complexity over the past decade. The investment climate and markets is more volatile and demanding, and today's low interest rate and returns don't look like they are going to change anytime soon. To get better returns, the wealthy are adding non-traditional investments such as private equity, real estate and hedge funds to their portfolios, as well as diversifying globally, which just increases the potential complications.

It's tempting then to turn the whole thing over to someone else to manage if you can get through the sheer volume of asset managers, products and strategies to pick someone. But even among wealthy investors, there is still a lot of confusion about whether they should have discretionary or non-discretionary investment portfolios. In other words, should you and your family manage the investments, or outsource the decisions to an individual or a firm of experienced professionals? For those who lack the investment experience, time or discipline to be involved with day-to-day decision making, discretionary investment management services are a popular option. Firms that provide this are called outsourced chief investment officers and should be licensed as portfolio managers with a provincial securities regulator such as the Ontario Securities Commission.

But not all discretionary services offered by the country's myriad banks, brokers and portfolio managers are the same and there are at least eight important factors to consider when choosing one. Does the firm: Have the skill, experience and resources to evaluate and manage assets across public and private markets? Have an "open architecture" approach, or the ability to allocate capital without conflict-of-interest to any independent asset manager from around the world in areas such as direct lending, real estate, private equity and hedge funds? Have the ability to access "best-in-class" institutional quality traditional and alternative asset managers? Provide a culture centred on client relationship management and strong communication? Offer robust performance reporting along with relevant custom benchmarks? Allow for clients to meet or speak with underlying asset managers? Take tax considerations into account to optimize returns on an after-tax basis? Offer more than a one-size-fits-all approach that utilizes just one or a few asset classes, such as stocks and bonds?

If the answer to any of these questions is no, you should probably look elsewhere, or, at the very least, realize you'll have to compensate for that lack of ability in some other way at your own expense and time. But if your family hires an outsourced CIO, you and the advising representative (a registered individual who can provide investment advice at a portfolio management firm) will start your relationship by discussing and documenting your unique investment objectives and constraints. Topics covered should include how much investment risk you are willing to take, the desired level of return for taking on that risk, liquidity needs, tax considerations, performance reporting and benchmarks, and the asset classes and markets you will allow your portfolio to be invested in. A written investment policy statement is then provided as a best practice that documents all of the above.

Your advising representative is then authorized to make all the necessary investment decisions (within the agreed-upon guidelines) and will not require consent for individual transactions. This service, which also consists of regular communication through methods that best suit your family — whether it's in-person meetings, webcam meetings, telephone conversations, emails and newsletters — forms an important part of the ongoing relationship. The relationship is of prime importance, since your investment objectives and strategy may need to change to provide a tailored fit as conditions within your family change.

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