How a Wealth Manager
Can Help Your Clients with DIY investing

With an abundance of financial information now available online, as well as easy access to low-cost trading platforms, it's no wonder that so many UK investors consider managing their own wealth. It may also be an understandable fascination for your clients to try and pick the next top performing fund manager or company share.

While it may be intellectually stimulating for your clients to manage their own investments, there are a number of hazards they should be aware of – and some distinct advantages to using a wealth manager for a portion of their assets.

Are they truly diversified?

Diversification is important within an investment portfolio because it reduces the risk of being overexposed to a certain company, sector, region or investment approach. Holding a range of shares or funds can give the impression of diversification, but there could be a number of reasons why an investor may not be achieving optimal diversification. They might unintentionally have a predominant exposure to certain investment themes, factors, sectors or regions.

For example, if one of your clients holds a portfolio of predominantly income focussed equity funds, they are not only likely to be exposed to many of the same stocks held across the income funds, but they are predominantly exposed to income as a style. What this means is that the factors driving the performance of income focussed stocks can significantly affect their overall portfolio performance.

Consider that income focussed stocks are more sensitive to changes in central bank interest rates. A lack of wider diversification means that a change in interest rates could have a material impact on the performance of these holdings. Iain Barnes, our Head of Portfolio Management, discusses this income question in more detail in this article.

Having a diversified portfolio is widely regarded as one of the only true 'free lunches' in investing – the benefits it brings come with little if any cost. A properly diversified portfolio can reduce portfolio risk for a given level of expected return, and a wealth manager can help ensure your clients achieve this.

Centrally-managed portfolios: the superior option… with a lower price tag

Most of the time investment markets display a little volatility. Yet periodically there are occasions when volatility rises and prices fluctuate significantly. Usually this coincides with negative news and uncertainty about the direction of the stock market. At times like this, it can be daunting for anyone to see their portfolios in negative territory, and your clients may be tempted to start selling positions and move to cash to reduce the uncertainty and cap the losses. It's also only natural to feel the effects of cognitive and emotional biases.

By working with a wealth manager your clients can benefit from years of investment market experience, and unemotional responses to periods of volatility. At Netwealth our seasoned investment team will always provide timely updates to explain what is happening in the market and what, if anything, we are doing about it.

The effects of costs

The rise of low-cost trading platforms has made it cheaper for investors to buy and sell investments themselves. However, if your clients are investing in active funds, the costs of holding these are significantly higher than either direct stocks or passive funds.

While there has been a trend throughout the investment industry over the past few years to lower costs, active funds have still not fully embraced this drift. An October 2018 report in Money Observer1 highlighted research by Morningstar – showing that while index funds and exchange traded funds cut their charges by 28% over the past five years, actively managed equity funds cut their fees by an average of 18%.

The result is that the average cost in 2018 for active funds was 1.09% compared to 0.29% for passive funds. This may not look like much of a difference but it quickly adds up.

With a modern wealth manager like Netwealth the total costs for a fully managed investment portfolio are often only marginally higher than the cost of clients managing investments themselves. We offer a fully managed discretionary investment service through the Transact Wrap Service from just 0.48% per annum, including VAT and the costs of underlying investments.

Benefits of a core + satellite approach

What is becoming increasingly popular is for DIY investors to adopt a 'core and satellite' approach. In this way, your clients can continue to self-manage a portion of their assets and entrust the bulk of their assets to a professional.

By choosing to place the core of their assets with a wealth manager they benefit from knowing that the majority of their assets are being professionally managed, with disciplined and unemotional decision-making and according to best practice principles.

In summary…

If you appoint a wealth manager like Netwealth to invest the core of your clients' portfolios, they keep control – not only of the satellite portion if they wish to continue selecting some of their own investments – but also over their investment plan and making future changes as necessary.

Your clients can control the level of risk in their portfolio and can choose from a range of account types. Your clients may also be reassured by the fact that all of our portfolios are highly liquid, low cost and globally diversified, and that our investment team are seasoned investors with years of institutional money management experience.

[1]Active funds fail to keep pace with passive fee cost cuts

Please remember that when investing your capital is at risk. .