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What makes a **good wealth manager**?

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Deon Gouws joined London-based wealth management group Credo in March 2012 as chief investment officer after a career of more than 16 years in the institutional side of the investment industry, most recently as the CEO of RMB Asset Management in Johannesburg. Prior to that, Deon qualified as a Chartered Accountant and lectured in accountancy and finance at post-graduate level. He also has an MPhil in finance from the University of Cambridge and is a CFA charterholder.

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HOW WOULD YOU CHARACTERISE A GOOD WEALTH MANAGER?

A good wealth manager:

- will spend time to fully understand client needs (including the capacity for as well as the attitude towards risk) and put solutions in place in accordance;
- will help educate a client when this might prove necessary (including an honest assessment of likely portfolio returns as well as the management of client expectations);
- will manage client portfolios in terms of a sound philosophy, consistently applied, and communicate accordingly on a regular, timeous and transparent basis as far as portfolio action and results achieved are concerned;
- will prioritise the service proposition and attend to all client requests (including ad hoc ones, where appropriate) without any delay and on a cost efficient basis;
- will always put the client first and treat all different clients in a fair and consistent manner (thus avoiding any possible conflicts of interest); and
- will be prepared to walk away from business in instances where it's clear that a prospective client's disclosed 'wants' are not deemed to be consistent with his or her actual 'needs' (or alternatively when these 'wants' are not considered to be realistically achievable, given the various constraints that might apply in the circumstances).

SHOULD A GOOD WEALTH MANAGER NOT SIMPLY FOCUS ON DELIVERING GOOD INVESTMENT PERFORMANCE TO CLIENTS?

Investment performance is obviously of crucial importance, as ultimately we are trying to add value in real terms to client portfolios. But measuring and comparing investment performance is actually a pretty vexed question, and in any event I would argue that this is ultimately a necessary but not sufficient condition. Satisfactory performance only buys the wealth manager a 'ticket to the game' – whereas the points as listed above are the ones that should enable good wealth managers to differentiate themselves in the longer term in my view.

YOU SAY THAT MEASURING AND COMPARING INVESTMENT PERFORMANCE IS A VEXED QUESTION – CAN YOU PLEASE ELABORATE?

It is well known that it's not easy to find the correct measurement yardstick for investment managers. For example, should one look at absolute performance (the feedstock of hedge fund managers around the world) or is it only relative performance that counts? If the latter, what is the relevant benchmark against which performance should be measured? Is an index appropriate, or should we consider peer groups as well . . . and how does a manager even try to outperform both at the same time? What is the most appropriate time period – is it three years? Or perhaps five . . . or even more? Should we not adjust track records for inflation and/or costs (explicit and otherwise) and/or risk? Which leads one to ask: what is your definition of risk? And how dependable are performance numbers in the first place: have they been audited (or are they at least auditable) and can we be sure that they represent the experience of the typical client of the firm over any given period?

In practice, the answer to many of these questions is often moot. If you consider the promotional material from a selection of investment managers, chances are that you will be able to identify a number of selection biases in the form of specific fund choices being promoted, disclosed time periods, benchmarks listed as relevant and/or client composites represented by the numbers – to mention but a few examples.

THIS ALSO LINKS TO THE QUESTION AS TO HOW EASY IT IS TO DISTINGUISH BETWEEN SKILL AND LUCK IN INVESTMENTS, DOES IT NOT?

Indeed. Let's just say that a client has in fact managed to identify a manager with truly great performance (however much this might be qualified in terms of the various caveats, as listed above).

What is then even more perplexing in this instance, is this very question: how much of this 'superiority' can in fact be attributed to real skill, and how much of it essentially boils down to dumb luck? Simplistic as this might sound to an industry outsider, the answer is far from easy.

Few people might doubt someone like Warren Buffett's ability, given the Oracle of Omaha's track record over 50 years, but sceptics such as Nassim Taleb will point out that even a 10 year track record of relative outperformance might be achieved by a 'lucky monkey'.

YOU MENTION WARREN BUFFETT – DO YOU CONSIDER HIM TO BE A ROLE MODEL?

Yes and no. On the one hand, one has to admire what Buffett has achieved over the years, and with his wit and whimsy he is arguably also the most quotable role model in the history of investments. Having said that, I'm not sure that he is actually a realistic role model for investment managers in general or wealth managers in particular, as in truth the business models (and many of the related realities and constraints) are actually quite different.

This further links one of my own firm's key objectives: we aim to be a star team (emphasising an ethos of collaboration and shared values), rather than a team of stars (like Warren Buffett or Peter Lynch or Howard Marks).

As is the case in team sports such as football, the individual qualities of professionals within any given wealth management practice ultimately matter much less than the results of the team. Said differently: it matters not whether you have Lionel Messi or Cristiano Ronaldo playing for you, but rather whether you have a firm that will in fact be able to go the distance. And for this, you need not only quality players, but also single-minded focus, a decent game plan and lots of stamina . . . true in the case of wealth management, as much as it is in football. ■