



Choosing an investment advisor

Due diligence means asking the right questions

There are many investment management models, from specialized boutiques to big financial supermarkets, from small private firms to big public companies. And while finding the right advisor has critical implications in many aspects of one's life, the selection process is often far from methodical.

What to look for

Studies show that trust and relationship are most important. A strong relationship is essential for productive communication and deep understanding of the investor's needs. A candid, honest relationship is also vital in difficult markets, where the temptation to switch strategies – perhaps at the worst possible time – can be overwhelming.

But beyond relationship, what else should you expect? There's no single answer, however asking the right questions can help to narrow the field. Below are some of the key questions to ask in the advisor selection process, with a glimpse of how Osbon Capital Management would answer each.

Who are you? Who is this gentleman (or woman) across the desk, and why is he there? Is he a salesperson compensated on his ability to bring in new accounts? Is he working for you? Or is he working for a regional manager, four other layers of management and thousands of shareholders? Do his sales responsibilities leave him enough time to really know the markets, your goals and your portfolio? Is he an investment professional, qualified to discuss and make recommendations about asset allocation, security selection, sell discipline and the other nuances of investing?

At OCM: You'll work directly with John Osbon, the founder and CEO. His only responsibility is to help clients protect and grow their portfolios. He is unconstrained by sales quotas or any other pressures. He works for clients and no one else. He succeeds by increasing assets under management. That happens when client portfolios appreciate in value, and when satisfied clients refer friends and colleagues to OCM.



Have you been here, done this? Is your advisor prepared for the next exhilarating market surge, or confounding collapse? Has he seen the market impact of political and technological revolutions? Does he know a boom from a bubble? Has he lived through enough market dynamics to recognize what's going on, or has he only read about them in books? Age is meaningless in investing, but experience is invaluable.

At OCM: John Osbon has almost seen it all. He has been guiding investors before, during and since all of the following: Dow 800; stagflation; a 20% prime rate; the reunification of Germany; the appointment of Alan Greenspan; the dot.com bubble; the Euro; ETFs; and outsourcing to India. His experience helps clients navigate every kind of market with insight and confidence. Furthermore, longevity provides the opportunity to build a track record of success. In any market environment, the goal at OCM is to provide a return of 200 basis points beyond relevant benchmarks, after fees.

How many channels do you get? Where does your advisor's information come from? Is it funneled from a single brokerage research department? Does it rely on the opinions of so-called gurus? Or does it draw upon and balance the input of many proprietary and public information sources?

At OCM: When it comes to research, we believe more is better. We subscribe to the research services of the 11 largest investment banks and utilize fundamental market data from Bloomberg and the Federal Reserve. By synthesizing these diverse points of view, we can make better informed, more disciplined recommendations for asset allocation and security selection.

What's the plan? Is there a systematic investment strategy for your portfolio? Can your advisor articulate it and contrast it to other potential strategies? Is the strategy, especially asset allocation, based on your specific circumstances, or is it a standard, formulaic plan applied to all clients.

At OCM: We build portfolios upon a foundation of intentional diversification and tax efficiency. In efficient markets, we leverage the cost, risk and return advantages of indexing. In less efficient markets, we utilize active management techniques, seeking to own securities undervalued by the marketplace. Our six-factor asset allocation method is highly customized; each client's allocation is unique.



How big is the universe? Are your investment choices limited by your choice of advisor? Does your advisor push investment products from a short list of in-house products (which, by the way, generate fee income for the firm)? Or is your universe of investment options completely unrestricted? Are recommendations unbiased and objective? Do you have access to European and Asian markets, and to private equity investments?

At OCM: The marketplace for investments is more diverse and global than ever before. We feel it is important that our clients have the opportunity to benefit from any investment vehicle, no matter where it is traded. We never limit our clients to a list of proprietary products; doing so never serves the interests of the investor. By the same token, we do not hesitate to recommend “unglamorous” investments, including Treasury bonds and indexes, which offer very desirable diversification attributes at very low costs. Though often shunned by brokerages, Treasuries and indexes belong in almost every portfolio.

What’s this going to cost me? A critical determinant of overall return is the advisor’s cost model. Will you pay commissions on trades, sales fees, and other costs? Will your results be eroded by hidden fees that do not appear on your statements?

At OCM: We believe complete transparency on fees and expenses is the only reasonable basis for an important business relationship. In our March 2007 article, “*Fees Matter: How investment expenses drive bottom line results,*” we explore all cost elements that affect portfolio returns. We encourage all prospective clients to read that article and open a candid discussion on expenses. (osboncapital.com/publications.html)

Speed-dial worthy

How do you know when you’ve found the right advisor? Use the speed-dial test: If you are confident enough in the advisor and the relationship that you would promptly seek out his insight and guidance when *any* matter of importance arises, then you’ve made the right choice.

Steve Mott, Research Editor
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