Making the Right Choice – Mar 31, 2021

Choosing the right investment advisor is crucial. ChapmanCraig offers some advice

Once you have established your investment goals, you will find it much easier to choose the investment professional best suited to meet your objectives. It is not relevant whether it is local or foreign, as long as your needs are met with the quality of service you wish. However, given the variety of investment advisors and products available, how does one choose?

Types of Financial Advisors

Banks

Besides the traditional banking services, local and foreign banks may also offer private banking, trust management and investment management services. Large international banks will offer just about every financial advisory service there is. But are they the best choice for you?

It is logical to use a bank for initial investment decisions such as cash management and stock trading. While it may appear easier to accept a comprehensive range of services from an institution, it is better to separate services. Once services are separated you are better able to compare the specific costs and standards of service.

Although banks are considered "conservative and safe institutions", there have certainly been a few bank failures. Monitor any reports that your bank is experiencing difficulties or major changes such as a merger. Take into consideration how these changes will affect your investments

Brokers

Brokers advise and make investment recommendations. Upon your consent, they execute transactions on your behalf. It is a shared responsibility; they do not manage your assets. Generally, brokers or investment banks with private client departments charge commissions on transactions or 'spreads' on over-the-counter transactions. Working with a broker is best for people who have the time, the interest and the knowledge to trade themselves. Brokerage fees are set by exchanges in some cases and deregulated in others. Your broker should be able to tell you the relevant commission rates.

Mutual Funds

These funds offer investors the advantage of diversification and professional management. A mutual fund is operated by an investment company or a bank. It raises money from shareholders or unit-holders and invests it in stocks, bonds, options, commodities, money-market securities and various other assets.

There are 'open-end" and 'closed-end' funds. 'Open-end' funds are the most common. Open-end unit-holders buy the shares at net asset value and can redeem them at pre-determined times, usually daily, at the prevailing market price. 'Closed -end' funds issue a limited number of shares, which are then traded on a stock exchange.

Mutual funds may be a good place to start investment programs because they require lower minimum investments (HK$10,000-80,000). However, they can be extremely costly when associated fees are considered.

Discretionary Investment Management

Here, an investor determines the investment objectives under which the account will operate and an investment manager is given the authority to develop and implement the investment strategy in order to reach those objectives. This category provides diversification and professional management like mutual funds, but it is more tailor-made to each individual's objectives.

Fees for discretionary managers are lower than those for most mutual funds. They generally charge an annual management fee with the rate decreasing as assets increase and sometimes a performance fee. Unlike mutual funds, the investor actually owns the securities in their investment portfolio and they can be sold at any time. The minimum investment in this category ranges from HK $2-10 million.

Hedge Fund and Commodity-trading Advisors

Some of these groups place huge bets on almost any financial or commodity market from the price of sugar to interest rates in Japan. They can achieve high returns because of the risks they take. Their fees usually consist of an annual management fee (around 2%) and 15% to 20% of any profits.

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