

Systems

At the heart of the modern wealth management organisation are the software systems that deliver, construct and manage portfolios and that model the ability of portfolios to meet needs over time.

These systems should represent the apogee of an organisation's values, investment expertise, risk profiling, asset liability modelling expertise and, business and service processes. If they are to manage not only assets, but financial needs over time they should be capable of the following.

- Analyse complex financial needs over time and construct portfolios to meet these needs.
- Distribute and adjust an organisation's investment strategy, asset allocations and recommendations to individual needs and preferences. There should be no model portfolios, every portfolio should be personal to the client.
- Integrating the management of assets (portfolios) and financial needs (liabilities) over time.
- Dynamically update, strategy, allocations and recommendations in response to market movements and changes in financial needs and risk preferences.

Without a direct relationship between the size and timing of a liability and the asset allocation of a portfolio, there can be no functional asset and liability management system.

Understanding their structure tells you how they manage your money and whether they are service or sales led, whether they do personalise your portfolio, whether they do manage financial needs and, how they manage and how effective they will be at managing risk.

These systems also tell you how much control an organisation has over the quality of the advice being given by its representatives.

Understanding these systems is key to assessing whether or not an organisation is capable of managing your financial assets to meet your financial needs over time.

These systems require two important components, an asset management component that directly relates an organisation's investment expertise, strategy and recommendations, dynamically and in real time to the individual client's portfolio and a liability management framework that manages the relationship between the client's liability profile and assets over time.

Today's systems

Most of today's systems were developed with the objective of delivering a much simpler asset management solution. As a result the solutions delivered are below the standard needed to manage financial needs and assets of the private investor.

Where they succeed in limiting the complexity of the issues addressed at the point of sale, they fail in their ability to manage the complexity left untouched.

There are two problems thrown up by simple systems.

- The first and the more important is that they separate out the asset management responsibility and accountability from the management of the client's portfolio.

- The second is that they ignore complex financial relationships that still need to be managed. This is either a cost to the client in the form of additional financial advice or a cost in the form of the risks the investor will be exposed to if these issues are not addressed.

The systems used and the expertise of those using them has a major impact on the quality of the wealth management solution. Quite often the systems used are looking to solve the wealth manager's problems as opposed to the investor's problems.

Asset Management Component

Software systems are the means by which expertise that selects securities and investments, allocates them and manages them are delivered to the private client portfolio manager.

They are the only means by which high level investment expertise can be delivered personally to large numbers of private investors.

Given the complexity of managing the relationship between assets and financial needs over time, it is not possible nor is it efficient for portfolio managers to be conducting their own individual research, asset allocation and market timing at the same time as managing large number of complex relationships.

Systems should be able to deliver the same portfolio that would be have been constructed by the best asset manager in the company.

In fact, because they should deliver an organisation's focussed asset management expertise, they should be capable of delivering far better portfolios.

Of course, this depends on the sophistication, the design, structure and decision rules underlying the system. It also depends on the asset management expertise supporting the system.

The best systems and really any system should be able to react automatically to market moves, adjusting security selection, strategy and asset allocation for all clients irrespective of financial profiles and risk preferences in seconds.

Additionally, portfolios produced by the best systems under pinned by the best planning and portfolio construction should not have their ability to meet planned financial needs affected by significant market moves.

Why is this ability important?

If you have hundreds of clients, there is no way you are going to be able to rework all portfolios in the time needed. Complex systems can automatically assess the affect of changes across all clients.

It is important to note that these systems can be set so that changes to asset allocation brought about by changes in relative market movements are only triggered by significant asset allocation deviations and by significant under or over valuation.

They can therefore not only deliver better portfolios, but better management and lower costs of management, reacting only to significant valuation differences and planned financial needs.

Valuation, allocation and management

If a system is going to be able to deliver advanced asset management expertise to the client, the system needs to be directly integrated with an organisation's valuation models.

This means that as prices change and the relationship between prices change, the system is able to automatically adjust strategy and analysis for client portfolios.

Most systems do not have this vital relationship with valuation models.

Because of this they cannot manage risk and return at a point in time. The link between asset management expertise and the portfolio is broken.

The more advanced systems should be able to adjust investment strategy for each client's preferences and financial needs.

Liability Management Component

The liability management component is quite often the weak spot in most systems that deliver model portfolio solutions or within organisations that do not believe the planning and management of financial needs is part of the portfolio construction, planning and management process.

It will have three functions.

- To construct portfolios based on current and future financial needs and risk and performance risk preferences.
- To plan the ability of assets to meet financial needs over time and to conduct integrated asset and liability modelling or what the industry calls wealth forecasting.
- To manage the relationship between financial needs, recommended asset allocation and security selection and the dynamics of changing security and market valuations.

This component directly relates the organisation's asset management expertise, asset allocation, security selection and current investment strategy to the client's personal financial needs and risk preferences.

Effectively, it makes all the decisions regarding the construction, planning and management of assets to meet financial needs over time based on the [investment planning decision rules](#) and their interaction with central investment security selection, asset allocation and strategy and investment discipline.

This component effectively handles the thousands of decisions that need to be made to relate portfolio structure to financial needs while managing risk and return.

It will adjust central low risk investment strategy and security selection to meet the size and timing of a client's personal financial needs.

It will relate future inflows (income and capital), future outflows (expenditure form income and capital) to the planning of the future allocation and the management of the current allocation as it changes to reflect changes in future financial needs.

It will adjust the central investment equity strategy, security selection and asset allocation and select and manage an appropriate portfolio for that client's financial needs and risk preferences.

It will determine when the portfolio needs to be rebalanced to meet both changing financial needs as well as changing market valuations, since the decisions over financial needs have a direct impact on portfolio rebalancing.

Asset and liability modelling

While the ability to value and allocate and relate valuation to allocation in real time is key to the asset management component of such systems, the ability to model the ability of assets to meet needs over time is critical to the ability of the liability management component to meet its objectives.

These systems do not just forecast future wealth, the asset and liability modelling actually integrates financial needs into portfolio structure and models this. This is critical to the ability of systems to manage the risks to the ability of assets to meet financial needs and plan effectively for meeting future financial needs from your portfolio.

This is a highly technical area. For those brave enough to venture into this area please see asset and liability modelling documentation in the technical section of the website for further information.