

Decisions, Decisions

A couple weeks ago I [wrote about how hard it is to offer investment advice without offering financial advice](#) (or at the very least gaining a deep understanding of your client's financial situation).

The truth is there's no perfect solution for offering financial advice or investment management. Every person, family or organization has varying degrees of investment skill and know-how. Some love learning about this stuff while others couldn't care less. Some have complex circumstances that require expert advice while others don't need a ton of help. Some feel more comfortable going the DIY route while others simply don't have the time or motivation to handle money management on their own.

Everyone's needs, goals, and resources are different.

The good thing for the financial consumer is the world is overflowing with options these days. Financial services are far from perfect but if you look hard enough there's a good chance a firm or sole practitioner exists who can fill the void in your wealth management needs, whatever they may be.

In that piece I also wrote the following:

Much of investment management is turning into a commodity in many respects. Anything that can be automated will be in the future. Anyone fighting this trend will be sorry.

There's a ton of nuance that goes with this statement so I wanted to elaborate. While I do feel that technology is going to continue to play a larger role in the financial services industry, people still have to make decisions. You can't automate understanding, context or situational awareness.

Technology will make a lot of the behind-the-scenes things much easier for investors such as trading, rebalancing, paperwork, performance tracking, and communication. Technology can take the human element out of the equation in certain respects but there are many other decisions that will always require critical thinking ability.

Here are some questions every investor needs to consider when managing a portfolio:

What is your overarching investment philosophy?

How will you set your asset allocation mix between stocks, bonds, cash and alternative investments?

Will you practice strategic asset allocation, tactical asset allocation or a combination of the two?

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How will you decide to diversify your assets? Hold a concentrated portfolio or a wide number of holdings and investments?

How often will you rebalance your portfolio back to target weights?

When and/or why will you change your asset allocation over time?

Will you hold individual securities, funds or both?

If you hold individual securities, what is your process for selecting individual names? What are your buy and sell rules?

How will you better understand how the individual pieces mesh together to create an overall portfolio?

Will you own active funds, index funds or both?

If active, how will you choose the funds, strategies or portfolio managers? What criteria will you use to understand when to get out of those active funds? How will you determine when periods of underperformance are normal or a signal that the strategy doesn't "work" anymore?

If indexing, will you own the entire market portfolio or break things up by market cap, geography, sector or sub-sector? Which index provider will you use? Which fund provider will you select?

If both, how will you select which funds to go active and which funds to index?

Will you invest in any other strategies including factor or quantitative funds? How will you select these funds and how will you weight them correctly in your portfolio?

Will you invest in mutual funds or ETFs? Why?

How many holdings will you have in your portfolio? What if you have too many holdings? What if you don't have enough?

How will you measure and track performance?

What benchmark will you use to ensure you're on track for success?

When and why will you make changes to your portfolio?

What is your asset location strategy for where to buy, sell, and hold your investments?

How often will you trade in your account? How will you place your trades?

How will you intelligently construct your portfolio and manage risk?

How will you develop rate of return expectations?

I'm sure there are a few that I missed here but you get the point. Investing can be simple but implementation can be very difficult. And this is just the technical side of things. I didn't even get into the behavioral aspects of investing.

Some investors will be able to answer these questions. Others will never take the time to think them through. Still another group will be so put off by all of the complexity involved that they end up doing nothing or trusting the first intelligent-sounding finance person they come across.

Even doing nothing is a decision.

The investment landscape is constantly evolving, as well. Our knowledge of the past has an impact on how things play out in the future. There's more information available than ever before. The product lifecycle in the fund world is notoriously short so there are constantly new funds available to sort through. The market structure and investable opportunity set are also sure to change in the coming decades. These changes will all require attention.

Anyone who thinks this stuff is easy doesn't understand the markets or human nature.

Whether you're using technology to make the management of your assets more efficient or not, those who are able to develop a solid decision-making framework will give themselves the highest chance for success.

Further Reading:

[The Financial Advisor's Guide to Asset Allocation](#)
