

How WrapManager Chooses Managers

While Managed Accounts have long been used by ultra-high net worth investors and institutions, investors of more modest wealth are able to gain access to professional money managers through WrapManager. Since many of these managers do not market to the general public and many have investment minimums too high for all but the wealthiest individuals, comparing managers and choosing the right ones can be difficult.

We use a database of over 1,000 money management firms, most with multiple portfolio strategies. From this group we select a very few managers that we actively recommend to our clients. We do not attempt to predict the next ‘Hot’ manager, style or asset class. We believe that market conditions sometimes merit the overweighting or underweighting of certain asset classes, but that broad asset class coverage is appropriate for most investors. Usually we have a universe of seventy to eighty manager strategies under contract to potentially use. From among these we attempt to have two or three recommended managers in each asset class.

As we evaluate candidate managers for recommendation there are many factors to consider, including the manager’s experience, the economic outlook, the current market attitude toward a given manager’s strategy, and the risks inherent a manager’s strategy. When evaluating performance, we compare managers of the same asset class and style on a number of factors including:

- Consistency – We look for managers with consistent returns over a number of years, in all kinds of markets. The manager who is never number one, but always a top contender is often a better choice than one that was number one last quarter, but a poor performer in five of the past eight quarters.
- Alpha – We look for managers with a positive Alpha, a statistical measure of excess returns over the market. Generating Alpha consistently over three to five years is very hard. Few managers can do it. Other things being equal, the higher the manager’s Alpha, the better.
- Beta – Another important statistic, Beta is a portfolio’s correlation with the market. A portfolio with a beta of one will move up and down in lockstep with the market, one with a Beta of negative one would move in direct opposition to the market. A Beta of zero is uncorrelated to the market. A manager with a Beta greater than one is taking more risk than the market in general. This is not in itself a bad thing, but investors should demand proportionally superior returns to the market in general in return for assuming greater risk than the market. The question is: will an asset – or a manager – with a high Beta actually

deliver proportionally better returns than the market? A Beta of less than one is less risky than the market in general. We try to use managers with low Betas, or those who have historically generated returns high enough to justify the risk of a higher Beta.

- Sharpe Ratio – So, exactly how much return is needed to justify the risk of a high Beta portfolio? The Sharpe Ratio helps answer this question by measuring risk adjusted returns. Managers who take more risks than the market should get higher returns, at least when the market goes up. A Sharpe ratio greater than one means that the manager has historically gotten excess returns over those expected for the amount of risk he is taking. In general, the higher a manager’s Sharpe ratio, the better.
- Manager Tenure – The manager—the one actually making the buy and sell decisions—is the person, or team of people, whose performance is actually being measured. The manager defines and often executes the stock selection methodology. A portfolio that has had an excellent track record under one manager might fall off our list if a new manager takes over. Conversely, a portfolio that turned around and improved dramatically when the new manager took over three years ago may be worthy of consideration. We look for experience and stability in management. Typically we like to see at least five years of manager tenure if there is a single portfolio manager.
- Personal Meeting – Selecting managers is more an art than a science. We do not take a formulaic approach to portfolio construction or manager selection. While we consider all the elements above, on many occasions we will meet directly with managers in an effort to better understand their individual approach to their strategy. In some cases we have had long-term relationships with the firms we recommend.

From among the managers we choose using this process, we build individual, custom portfolios for each client. These portfolios are based on your goals, needs and risk tolerance. Get a [FREE Money Manager and Asset Allocation Proposal](#) today.

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it present a personalized recommendation to you. Therefore, prior to selecting a Money Manager it is important you discuss the manager with your financial advisor. Your financial advisor can help you determine proper suitability constraints and objectives as determined from your individual needs and circumstances. A Money Manager should only be selected if the manager is appropriate for the individual investor.

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