What to look for when investing $1-million

One good move: hiring a portfolio manager who has a fiduciary duty to act in your best interest

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Say you've managed to build up your investments to $1-million. When you have this much money, it makes sense to go beyond mutual funds and brokers and consider a less familiar third option – portfolio manager firms.

Also known as investment counsellors, they make good sense if you have a large portfolio and want to turn over day-to-day management to seasoned professionals, subject to your overall direction. This option is offered by specialized divisions of each of the five largest banks, by small boutique firms, and by larger independent firms which also manage pension fund assets.

As organizations that specialize in managing money for discriminating clients, portfolio manager firms have typically built impressive investing track records. "The only thing they do is manage money for clients. If they don't do that well, they're going to be out of business," says Kelly Rodgers, president of Rodgers Investment Consulting, which finds portfolio managers for affluent individuals and non-profit organizations.

The minimum account size at many of these firms is typically $1-million. Investment styles are typically conservative and tailor-made for the affluent.

"The expression in the industry is these firms are in the 'stay wealthy' business, not the 'get wealthy' business," says Ms. Rodgers.

Most investment professionals here have the well-regarded chartered financial analyst (CFA) designation, while the rest have the less-rigorous but still respected chartered investment manager (CIM) designation.

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Portfolio managers have a legal "fiduciary" duty to always act in the client's best interests and put client interests first, whereas brokers and mutual fund advisers must only sell you "suitable" investments, which is a lower standard.

These firms receive no commissions from investment products. For accounts of $1-million, they typically charge fees of 1 to 1.5 per cent of assets per year. That is also about what a broker typically charges for accounts of this size and tends to be cheaper than what you'll pay in investment fees for buying mutual funds, which is typically at least 2 per cent or more.

Portfolio manager firms are known for their rigorous processes. When you first hire one, the portfolio manager on your account will help draw up an investment policy statement, which describes your objectives, risk tolerance and other circumstances in detail, and then provides overall direction for the types of assets to invest to in.

Then the firm typically turns your money over to a separate group of professionals within the firm who specialize in selecting individual investments. They usually invest your money in "pooled funds" (which are like mutual funds with large minimum accounts sizes and low fees) and "segregated accounts" (which are managed like pooled funds, except you own the individual securities instead of fund units, and you can tailor some contents to your needs, in some cases).

How do you find a portfolio manager? Visit the Portfolio Management Association of Canada website (portfoliomanagement.org) to find member firms, listed by minimum account size and locale.

And be careful: Brokers at investment dealers who are licensed to provide discretionary management are also often called "portfolio managers." While they have similar qualifications and are also required to manage your account on a fiduciary basis, Ms. Rodgers says they're a different breed.

That's because investment dealer "portfolio managers" typically operate with a great deal of independence within the firm, so results depend heavily on the decisions of that individual. In portfolio manager firms, they typically use an integrated firm-wide process to manage your investments, so results depend on choices made by a team of professionals.

Assess your prospective portfolio manager firm against what Ms. Rodgers calls the five P's: philosophy, process, people, price and performance. "If you get the first four right, the fifth – performance – will be the result," she says.

Look for a consistently solid performer rather than a top performer in just one period, she says. "Steady Eddy managers do better over time. Doing a little bit better than the median consistently quarter after quarter will put you in the top decile over a 10-year period," she says. "Consistently good is much better than occasionally great."

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