ASSET MANAGEMENT

Allocating and diversifying assets

These are a student's notes from a lecture about asset management.

WHAT? **Asset management** is managing financial assets for institutions or individuals.
WHO? Pension funds and insurance companies manage huge amounts of money. Private banks specialize in managing **portfolios** of wealthy individuals. **Unit trusts** invest money for small investors in a range of **securities**.
HOW? Asset managers have to decide how to **allocate** funds they're responsible for: how much to invest in shares, mutual funds, bonds, cash, foreign currencies, precious metals, or other types of investments.
WHY? **Asset allocation** decisions depend on objectives and size of the portfolio (see below). The portfolio's objectives determine the returns expected or needed, and the acceptable level of risk. The best way to reduce exposure to risk is to **diversify** the portfolio – easier and cheaper for a large portfolio than a small one.

portfolio: all the investments held by an individual investor or organization

securities: a general name for shares, bonds and other tradable financial assets

allocate: to distribute according to a plan

diversify: to buy a wide variety of different securities

BrE: unit trusts; AmE: mutual funds

Types of investor

Investors have different goals or objectives.

- Some want **regular income** from the investments – less concerned with size of their capital.
- Some want to **preserve** (keep) their capital – avoiding risks. If the goal is **capital preservation**, the asset manager usually allocates more money to bonds than stocks.
- Others want to **accumulate** or build up capital – taking more risks. If the goal is **growth** or **capital accumulation**, the portfolio will probably include more shares than bonds. Shares have better profit potential than bonds, but are also more **volatile** – their value can increase or decrease more in a short period of time.

Active and passive investment

Some asset managers (or their clients) choose an **active strategy** – buying and selling frequently, adapting the portfolio to changing market circumstances. Others use a **passive strategy** – buying and holding securities, leaving the position unchanged for a long time.

Nowadays there are lots of **index-linked funds** which simply try to **track** or follow the movements of a stock market index. They buy lots of different stocks in the index, so if the index goes up or down, the value of the fund will too. They charge much lower **fees** than actively managed accounts – and usually do just as well. Investors in these funds believe that you can't regularly **outperform the market** – make more than average returns from the market.

BrE: index-linked fund; AmE: tracker fund

Find nouns in A and B opposite that can be used to make word combinations with the verbs below. Then use some of the word combinations to complete the sentences.

accumulate ....

diversify ....

allocate ....
....
....

manage ....
....
....
....

1 I don't want to pay a bank to .... my .... ; I can do it myself.

2 I have lots of different types of securities, because I decided to .... my ....

3 As an asset manager, I discuss clients' needs and objectives and then we decide how to .... their ....

4 If my clients want to .... , I take more risks, and buy a lot of stocks.

Match the investment goals (1–3) with the statements (a–c). Look at B opposite to help you.

1 capital preservation
2 growth
3 income

a I want to accumulate wealth, but I know that this means taking risks and buying securities with volatile prices that could go down as well as up.

b I want a regular return every year, because I need that money, even if this means I might have to risk losing some of my capital.

c I definitely don't want to risk losing any of my capital, even if this means that some years I get a very low return.

Match the two parts of the sentences. Look at A, B and C opposite to help you.

1 The value of index-linked funds will change frequently
2 Private banks
3 Asset managers buy more bonds than shares
4 Mutual funds
5 Asset managers buy more shares than bonds

a if the client wants to avoid risks.
b diversify the money of small investors.
c if the whole market is volatile.
d manage the investments of rich investors.
e if the client hopes to accumulate capital.

Over to you

What particular skills and abilities do you think an asset manager needs? Do you think you have them? Would you like to do this job?