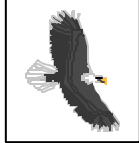




ICG TIMELY TOPICS

FROM THE TOP



The most common pitfalls of monitoring managers are falling in love with good returns, losing patience with bad returns and trustee indecision.

When falling in love with good returns, the impulse is to leave assets with the manager and not pay attention to overall asset allocation. When losing patience with bad returns, there is a tendency to forget that asset classes go in and out of favor and that no single investment style can weather all market conditions. Trustee indecision occurs when there is no formal process for monitoring investment managers through a policy. An investment policy sets goals and guidelines for all parties and helps the communication process.

September 2000; Financial Planning; “When Less Is More” (pp. 55, 56)

The tenure of the mutual fund manager tends to have a direct correlation to the fund return. When a manager leaves a fund and new management takes over he/she usually adjusts the portfolio to his/her liking. The result of less management tenure is a portfolio with a higher turnover rate. Separate account managers are the same as mutual fund managers and the same effect is reflected in the portfolios.

April 4, 2000; The Wall Street Journal; “Why I Won’t Be Buying Techs Today” (p. C1)

With the dip in the tech market there is a temptation to move funds out of the tech market and into the money market funds and ride out the storm. The professionals have not mastered market timing and individuals should not try it either. Keep no more than 33% of your portfolio in the tech market and shift the remainder into other stock market sectors.

October 2000; Wealth Manager; “Is There a Tomorrow for the Mutual Fund?” (pp. 16,18,19)

Tomorrow is there, but it will look different from today. New fund classes are being developed to offer lower fees to the biggest customers. Exchange Traded Funds (ETF’s) are being introduced as a new element into the market. Will fund companies get the message and lower fees? Only time will tell.

September 11, 2000, Vol. 4, No. 36; Investment News; “Counting stars? It’s not the best way to pick funds” (p. 8)

Before consulting the Morningstar star rating system think twice. Some new funds may start out with a stellar rating that won’t hold up. An investor needs to look deeper than just the star rating. Financial advisors rely on information such as fund detail.

September 4, 2000; Pensions & Investments; “Everyone an Analyst” (Editorial) (p. 10)

By complaining about the proposed SEC rule for broader disclosure of information from publicly traded companies, analysts are giving the impression that they are able to take advantage of the advanced information they receive. The truth is the individual usually does not beat the market whether he/she uses the analyst information or not. Analysts could benefit from the broader disclosure. Corporations would find it harder to play analysts off one another.

July-August 2000; Plan Sponsor; “Quis custodiet ipsos custodes?” (“Who consults about consultants?”) (pp. 32, 33)

Cooper Consultants, out of Houston Texas, specializes in helping pension clients choose and manage consulting relationships. Cooper researches consultants and rates companies on such things as independence and where they receive revenues.

July-August 2000; Plan Sponsor; “Engarde”(pp. 37, 38, 40, 42, 44, 46)

There are 10 steps to help the plan sponsor protect against lawsuits. 1) Meet ERISA 404(c) requirements. 2) Make decisions in participants’ best interest. 3) Offer variety of investment options. 4) Offer education to employees. 5) Monitor funds for style drift. 6) Keep on top of plan fees. 7) If your plan allows employees to make daily changes to their accounts, make sure that it really is daily. 8) Know the service provider. 9) Create a paper trail. 10) Communication.

August 28, 2000, Vol. 4, No. 34; Investment News; “Automatic 401(k) enrollment is no panacea” (p. 27)

Automatic enrollments have become popular with employers and while this increases participation rates, it rarely increases deferral rates. In 1999, 490 sponsors surveyed revealed that 7% had automatic enrollments, up from 4% in 1997. However the majority of new participants elect the default savings rate. Some employees will also stop saving outside the plan and end up saving less.