Understanding the three types of investment pros

Private client bankers are more like money managers than like stock brokers

by Brad Broberg

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Ferguson Wellman's Jim Rudd says picking an adviser depends on individual investors' styles. When it comes to making investments, some people want to drive the bus while others just want to enjoy the ride.

Enjoy may be the wrong word given Wall Street's recent woes. The point is that different people want different degrees of control over their portfolios.

That's why high net worth individuals should think carefully before choosing which breed of investment professional to team up with — a stock broker, money manager or private client banker.

"There is no right or wrong way," said Jim Rudd, a money manager at Ferguson Wellman Capital Management in Portland. "It all boils down to ... what each individual investor is comfortable with."

Yet comfort is a relative term in today's market. Katharine Coakley, senior vice president and market manager at Key Private Bank in Portland, cited a recent survey by The Wall Street Journal in which more than 80 percent of the respondents said they would consider changing their investment advisor.

"In our industry, we call that lots of money in motion," she said. "It doesn't mean an (investment adviser) is doing a bad job. It's just that people are suddenly questioning what's going on."

In some ways, though, that's par for the course in the investment arena, where the rules of the game — and the roles of the players — are not always well understood.

"It's such a mystery to so many people as to what the differences are from brokers to banks to money managers," Coakley said.

All three belong to the same family, but banks and money managers are more closely related to each other than they are to brokers. That's because they, not the client, decide how to invest the client's money based on an agreed upon road map that takes into account risk, diversification and other key factors.

"We really want their input on the road map," Coakley said, "but we don't want their input necessarily as to buy this or sell that. If someone is calling me once a week, we better review (the road map)."

Brokers, on the other hand, provide advice and guidance, but their clients call the day-to-day shots.

“The brokerage model appeals to someone who either needs to be in control of all of their investment decisions or wants to be in control,” Coakley said.

Another difference: Brokers collect transaction fees while banks and money managers bill clients once a quarter based on the market value of their portfolios.

“Our interest is the same as the client — to make the portfolio grow in value,” Rudd said.

There is, however, more than one kind of stock broker. Old-school brokers scour the ticker, call clients with tips and execute trades. New-school brokers, whose fees are based on portfolio value, help clients create a financial plan and choose the best people and firms — not necessarily just one but a combination — to manage their money.

“Oh, and by the way, if you want to buy 100 shares of Apple, we’ll help you do that too,” said Bradford Wear, vice president and financial adviser with Morgan Stanley in Portland.
Before the Internet put an ocean of information at everyone’s fingertips, the main value stock brokerages provided was research, said Wear.

“The value is not in research any more,” he said. “The value is in having a non-biased person sitting next to you giving you advice and guidance.”

Although there are areas of overlap between the three types of investment professionals, banks offer the widest variety of services, Coakley said.

“We can do everything that the others can do and then some,” she said. “The then some is why people come to us.”

Only banks, for example, can set up trusts. A trust is more than a vehicle for managing investments. Trusts can be set up to do everything from pay bills to manage real estate, Coakley said.

One way that banks and brokers are similar to each other — and different from money managers — is that they take custody of their client’s assets. Money managers do not. Their clients must place their assets in outside accounts and give their money manager limited power of attorney to access the account and make investments on their behalf.

While Coakley cites the “one-stop shopping” appeal of banks, Rudd points to a “tighter focus” on investing by money managers. “That’s all we do,” he said. “Banks, by and large, make their money by lending money, not managing money.”

No matter which type of investment professional people choose, it’s crucial that they know as much as possible about who they’re dealing with and how they operate, said Rudd. Case in point: the Bernie Madoff scandal.

“In today’s environment, investors spend too much time on investment risk and not enough time on the business risk of whoever they’re trusting their money to,” he said.