An invigorating career, if you have intestinal fortitude

Being an asset manager is almost always exciting. It spans a massive array of disciplines, is influenced by the behest of news flow, brings you into contact with senior management in all sorts of businesses and is highly competitive. At many firms, it's patently overpaid! But, it's hardly utopia.

YOUR TOOL KIT

You will need to be able to read financial statements as easily as an Enid Blyton novel and to analyse them with a critical eye for deviations from accompanying narratives and "creative accounting"; principles of compound interest should come to you naturally; macro and micro economics should be a doddle (even if you doubt their value); your presentation skills should be excellent; you must possess a healthy dose of scepticism without being an outright cynic; you must be prepared to be contrarian, but at the cost of being vilified when you're wrong; you will have already displayed ample skills as an analyst. These are just the essentials – they won't suffice to make you a *good* asset manager.

Be prepared for more studying. You will need to write easy but compulsory regulatory exams to demonstrate your knowledge of legal and ethical obligations as a fiduciary. You will probably be expected to write (and pass) the three levels of the CFA exams: these are the gold standard of the industry. You may aspire to managing only equity portfolios, but you will need to demonstrate skills in fixed interest, derivatives, behavioural finance and more. Continuing education is a permanent reality.

INVESTING ANALYSIS - AN EXAMPLE

Asset management is multifaceted. Let's say you need to decide on exposure to retailer Shoprite in your clients' portfolios - an everyday and relatively straightforward type of decision for an asset manager. You're well acquainted with Shoprite's financial and management's capabilities; you know about determined expansion plans into sub-Saharan Africa; you've allowed for the volatility in Nigeria's naira and its translation effects into rand earnings; you painstakingly assess many valuation parameters, both in time series and in cross-sectional analyses. You decide to buy more Shoprite shares and you've already had an intellectually gratifying day.

You submit your order to pre-trade compliance checks, place it with your dealing desk and monitor your stockbroker's execution. Now you can turn your attention to a flood at an Australian coal mine, the higher borrowing costs of banks arising from new capital adequacy requirements, and widening yield spreads on corporate bonds.

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The following day you read of new political strife in the Middle East: oil prices are up sharply; delivery prices of groceries will increase; disposable income in some African countries will be under pressure. Shoprite's operating margins will be below the levels you so carefully used in your detailed models. This impinges on bottom-line earnings and on plausible valuations.

Doubts emerge. What if the CEO retires early? What if supposedly hands-on management misses stock theft by employees on a grand scale, as happened in the 1990s? What if US bond yields rise, causing higher South African interest rates, a larger denominator in your dividend discount model and a lower projected share price? When you bought those shares, who sold them to you? Someone who knows more than you? The most indomitable investment mind will always toil under a host of uncertainties.

Should one of your concerns or an unforeseen mishap materialise, your recently acquired shares could tumble. You will probably ascribe this to bad luck, rather than that you failed to include more risks in your model. In time, all existing and potential clients will see is an ugly dent in your track record. You will have to live with this judgment. Your boss will inflict a similar dent in your bonus.

This simple example portrays a sense of the boundless issues in investment analysis.

YOUR ACTIVITIES

You may want to be a specialist but you will be engaged in many other activities. Most asset management firms are rapacious gatherers of assets. You will be drawn into new business initiatives. These can be enjoyable but asset management is fiercely competitive and you will be up against slick marketing, selective reporting of performance and possibly underhand tactics. You will participate in operations, administration, human resources, compliance and branding meetings. There will be staff squabbles – more so than in most industries, as asset management employs many prima donnas.

Your clients may be quite hostile at times. Pension fund trustees and wealth managers are not investment specialists so they take shortcuts in asset manager selection. No matter that you may have exceeded the performance benchmark they set you. If a competitor did better (regardless of whether they did so by taking far more risk), you will hear about it. Futile as performance surveys are (see the previous edition of *Collective Insight* for an excellent treatment), clients and too many consultants use them extensively. Clients may begrudge your fee, and they will scrutinise it more closely than your risk-adjusted performance. Most trustees and advisers believe they can pick asset managers whose performance will be in the top quartile. So, at all times, 75% of asset managers will be deemed disappointing their clients.

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REPUTATIONAL RISKS

Far too many asset managers over-promise, with the obvious consequence of under-delivering. An engineer can confidently predict that his bridge will stand up to end-to-end traffic jams in swirling winds. Asset managers definitely cannot be assured of beating benchmarks or peer group medians but, sadly, that inhibits few from promising to do so.

Despite what should be demanding entrance criteria, barriers to entry in asset management are actually quite low. Knowing the right people or having the gift of the gab may be enough. So appalling garbage often passes for research; simple extrapolation of stochastic prices is rife; parading short-term performance is widespread; unduly influencing potential clients goes on; and enrichment on a grotesquely unethical scale happens more than you may suspect.

So, you want to be an asset manager? Go for it! It's riveting, well-rewarded stuff. Just be ready for high levels of antagonism, deep disappointments, a low likelihood of staying the course until normal retirement age and for dealing with critics with 20/20 hindsight. The rest is easy! ■