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Combine Monitoring, Management for 403(b) Success

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Imagine that you're driving down the road. Looking ahead through your car's windshield, you keep your eyes on the road to avoid traffic hazards and to make sure you don't make any wrong turns. Occasionally, you glance at the rear view mirror to see what's behind you. Both views are needed to ensure a safe arrival.

This illustration captures the difference between portfolio monitoring and portfolio management. For advisors who specialize in the ever-changing 403(b) and 457 retirement plan marketplace, and the school district officials and plan participants they serve, knowing the distinction between portfolio monitoring and portfolio management is one of the keys to ensuring investment success for their clients.

Portfolio monitoring tends to take the rearward view, looking at where the client's portfolio has been in terms of investment performance and results. Portfolio management is always forward-looking.

When you're driving a car, you look in the rear view mirror from time to time, but you spend most of your time looking out the windshield at the road ahead. Similarly, 403(b) and 457 financial advisors need to focus most of their time and attention on portfolio management.

Portfolio management is the professional management of various securities (e.g., shares, bonds, cash, mutual funds) and assets (e.g., real estate) in order to meet clients' specified investment goals. Portfolio management embodies the art and science of making decisions about investment mix and policy, matching investments to objectives and balancing risk against performance.

In the long run, portfolio management enables 403(b) and 457 advisors to provide customized investment solutions to clients according to their needs and requirements. The portfolio manager must understand the client's financial goals and objectives and offer an investment solution tailored just for him or her. That is because no two clients, as any experienced 403(b) and 457 pro knows, have the same financial needs.
At the same time, the portfolio manager is a fiduciary who is looking out for his or her clients' best interest. A financial advisor who is a fiduciary provides the best advice that he or she can give, without any influence from outside interests. At the same time, a fiduciary advisor has the discretionary authority to make investment purchases he or she deems wise, on behalf of the client.

(continued)

A classic example of portfolio management can be found in the recent run-up of social media stocks. A portfolio monitor will look in the rear view mirror at the recent increases in share prices for Facebook and LinkedIn and say, "Social media stocks are doing well, and we should be in those stocks." For the portfolio manager, however, social media stocks trading at hefty premiums are shiny objects that could lead to a wrong turn in the client's investment strategy.

From a philosophical point of view, a good portfolio manager will concentrate on the road ahead and stay focused on the client's long-term goals and objectives. This means being conscious of both overvalued and undervalued market sectors. In today's market, for example, a forward-looking portfolio manager will notice that international markets are lagging but are showing strong long-term fundamentals.

In the final analysis, the portfolio manager will stick to a disciplined process to find opportunities where the mass market is not looking for them. As an investment strategist in the dynamic and fluid 403(b) and 457 retirement planning marketplace, the portfolio manager will be fearful when others are greedy and opportunistic.

When you're wearing the portfolio monitoring hat, your focus is on recent past performance. But as a portfolio manager, combining long-term vision with fiduciary responsibility, you keep your eyes on the financial road and your hands on the investment wheel in order to make the mid-course corrections that steer the client in the right retirement direction.

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