Check out money manager before investing

finances and you

Sid Mittra

In recent years the phenomenal rise of the stock market has brought out of the closet a new breed of entrepreneurs who are anxious to manage your money for a handsome fee.

To be sure, investment managers have been around for a long time and have had a venerable history. Also, many of the newcomers are highly competent professionals.

Still, as the ranks of private money managers continue to swell, people with dubious credentials and little competence succeed in establishing themselves as sophisticated investment mangers.

HERE ARE two examples to illustrate the point. Last spring the Securities and Exchange Commission accused a successful Boston money manager of lying about his credentials, claiming exaggerated investment performance and forging the audit report — on stolen stationery of a Big 8 firm — that backed him up.

A much more damaging case is that of an investment manager who left a reputable financial planning firm and took with him many of the planner's clients. The manager had neither the appropriate credentials nor the track record.

However, he chalked up an impressive record on the phony claim that his clients would have realized substantial gains had he used the stock market model he had recently developed on paper. Such examples can be easily multiplied.

IF YOU are looking for a investment manager, screen candidates carefully, even if a friend refers you. Here is a checklist of what to look for in a competent investment manager:

1. The investment manager should have at least a bachelor's, or preferably an MBA, degree in management or finance.

2. The investment manager should have been actively engaged in the business of actually managing people's money for at least six years. If the investment manager claims to have been associated with a brokerage or a financial planning firm, check with his former boss or partner to see if he is telling the truth.

3. Carefully check the investment manager's record. How did he perform during a recession and a boom? Make sure his claims are not exaggerated.

4. OBTAIN a satisfactory answer to each of the following questions:

a. Who is personally in charge of the money?

b. What kinds of access to the funds do you have?

c. Does the investment manager use both fundamental and techincal analysis and can he demonstrate that to you?

d. Are your holdings insured by SIPC or private insurance?

e. How easily can he break the relationship?

f. How are the fees structured?

The business of investment management operates somewhat in the dark. Do not be swayed by cold calls and fancy advertising.

Whenever possible, check with your financial planner before engaging an investment manager.

Educational Seminar: "Impact of New Tax Law on Your 1986 Investment, Tax and Retirement Planning." The seminar, sponsored by Observer & Eccentric Newspapers and Coordinated Financial Planning Inc. will be 7-9:30 p.m., Tuesday, Nov. 18, at the Kingsley Inn, 1475 N. Woodward, Bloomfield Hills.

For information or reservations, call 643-8888.

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Young investor should be buying growth stocks

today's investor

Thomas E. O'Hara
of the National Association of Investors Corp.

I am 36 and own three stocks. Each one is a utility, and on the average, I am getting dividends that yield a little more than 7 percent on my investment.

I have a friend who is an experienced investor, and he tells me I am making a mistake investing in the kind of companies I have bought. He says I am young and should be investing in growth companies. He says I will have less income now, but, in time, should have a lot more income and that my stocks would be worth more.

Would you explain to me what growth stocks are, how I can find them and what the difference is likely to be?

Growth stocks are stocks that have had a long record of increasing sales and earnings per share, and where the prospects for continued growth seem to be good.

Growth generally comes two ways. In one case, the company may be in an industry that is enjoying a rate of growth well above the average, and the company is growing along with it.

In the other case, the growth comes from the ability and push of the management team that is running the company. The industry may not be grow ing, but the skill and "driving force" of management keeps pushing the company ahead.

GROWTH OF THE second type is likely to be more dependable and continue for a longer period of time, or as long as the same management remains in place.

There are a number of ways to find growth companies. Ask your broker. His company probably can suggest a number of companies that it is familiar with.

There are a number of investment services that specialize in growth companies. Your broker could probably give you their names and addresses, or you can get them at your public library.

Also you can go to the library and get Standard and Poor's Stock Reports. Just thumb through the reports and pick out the companies whose sales have doubled each of the last five-year periods that you find recorded there.

Beware of new companies that have increased sales and earnings rapidly in the last four or five years and are selling at 30 times earnings or more. The odds are a slow-up in the rate of growth will take place and a sizable drop in price will occur.

As an investor, you will find some differences between the kind of companies you now own and growth companies. The three stocks you now own have grown at a moderate rate over the past five years, in the area of 5-7 percent. The dividend also has increased moderately.

THERE IS NOTHING wrong with the companies you own that I can see, but at your age, the prospect of owning companies growing 2 to 3 times as fast offers a much greater reward.

Changing into higher growth rate companies means your immediate dividend will be less. Possibly it will be a third or less of what you are now receiving.

But the pattern of growth companies is to increase their dividends each year, at about the rate the company is growing. If you own a company that is growing at 15 percent a year and its dividend is increased at a similar rate, you will be getting twice as much in dividends in five years.

This computes to four times as much in 10 years and eight times as much in 15 years. That will give you an idea of what could happen by retirement time for a person your age.

Thomas E. O'Hara of Bloomfield Hills is chairman of the board of trustees of the National Association of Investors Corp. and editor of Better Investing magazine. O'Hara welcomes questions and comments but will answer them only through this column. Readers who send in questions on a general investment subject or on a corporation with broad investor interest and whose questions are used will receive a free, one-year subscription to Better Investing. O'Hara will send a free copy of Better Investing magazine or information about investment clubs to any reader requesting it. Send 50 cents for postage and write Today's Investor, P.O. Box 220, Royal Oak 48068.

clarification

Any unearned income received by a minor in excess of $1,000 per year — no matter what the source — is taxable at his parents' rate. Last week's paper said that income from non-parental gifts of any size would be taxed at the minor's rate. This was proposed in the tax bill but not enacted into law.