

Does Bigger Necessarily Mean Better? The Decision on Consolidation

Mergers, acquisitions, purchases. All these are executed in order to make an organization bigger in order to achieve some common corporate goals - market dominance, economies of scale leading to better performance or maybe simply the elimination of a competitor. Whatever the reasons, can you and should you apply the same principles which work in the corporate world to your own portfolio management? Should you consolidate your portfolio?

What About Diversification?

One of the main reasons for not consolidating your assets into one portfolio has been to avoid putting all your eggs in one basket. This has led many people to divide their portfolio among two, three and sometimes four different investment advisors. This meant that you had more statements, more meetings and usually more transactions to keep track of. It also means in many cases, you pay more to have your money managed because you do not get the economies of scale that a larger portfolio may bring.. The question that you must ask yourself today is do I need diversification of managers? With a myriad of ways to manage your money today including wrap programs, which give you the opportunity to choose different money managers within the same program, this once valid reason is gone. Your portfolio should be designed and structured to achieve your goals and objectives. Doing this when your assets are divided among a number of managers is extremely difficult. You need one person who can manage the whole process to ensure that you are headed in the right direction. Also, having your assets at one firm will usually decrease the costs of administering your portfolio.

How Would I Measure Performance?

Previously, I have written about the use of benchmarks to evaluate your portfolio's performance. The S&P, the Dow, the TSE, or whatever benchmark you are using is largely irrelevant. The only benchmark that matters is the rate of return that you require to achieve your goals and objectives. This rate of return becomes your own personal benchmark. This means that if you have divided your portfolio amongst a number of firms to allow different individuals a chance to show their ability to perform, you are frankly, missing the boat. The performance of your portfolio should be measured against your own goals and objectives, not what anyone else is doing. This does mean however that you need to have a financial plan done to know what your required rate of return is. When you are sick and you go to a doctor, you may go to another doctor for a second opinion, but once you are diagnosed, you don't get treated for the same condition by many different doctors at many different hospitals. Give some consideration to consolidating your assets with one trusted advisor. You will benefit by achieving your goals at a rate that is not likely to occur when your portfolio is fragmented among many different advisors.