



Portfolio Management

Wise investing can help an individual protect his/her investments and also increase the probability of growing that capital. Portfolio management becomes essential for a wise investor when making investment decisions. While investments introduce some risk, it also offers an investor some financial security.

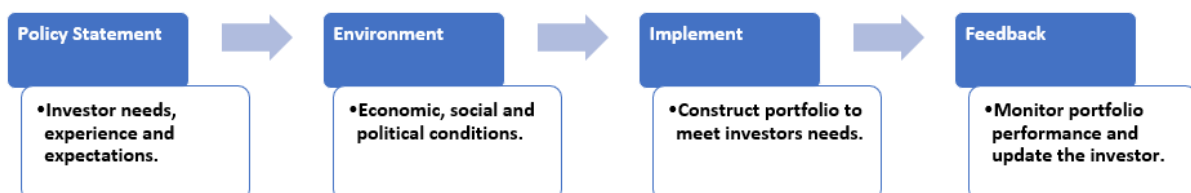
Portfolio management involves building and overseeing a selection of investments that will meet the long-term financial goals and risk tolerance of an investor. Active portfolio management requires strategically buying and selling stocks.¹

This week's article will look at various components of the portfolio management process with particular focus on the investment policy statement. Investors in the securities market of Trinidad and Tobago, can approach broker-dealers who are registered with the Trinidad and Tobago Securities and Exchange Commission (TTSEC), for a variety of portfolio management services.

A broker-dealer is an entity engaging in, or holding himself out as engaging in, the business of (a) effecting transactions in securities for the account of others; (b) buying or selling securities for his own account and is willing to buy and sell securities at prices specified by him; or (c) such other activities as may be prescribed.

Broker-Dealers usually follow various methodologies related to portfolio management. These methodologies typically include creating a policy statement, an examination of the environment, constructing the portfolio and providing feedback as seen in diagram 1. For the purposes of this article, the registered broker-dealer will be referred to as the portfolio manager.

Diagram 1



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<https://www.investopedia.com/terms/p/portfoliomangement.asp#:~:text=Portfolio%20management%20involves%20building%20and,to%20beat%20the%20broader%20market.>

Create a Policy Statement

A policy statement can be considered a roadmap to meeting investor expectations. It will specify the types of risks the investor is willing to take, the investment goals and constraints. All investment decisions will be based on the policy statement as it ensures all actions executed by the portfolio manager are appropriate for the investor. Given that investor needs, goals and constraints change over time, the policy statement must be periodically reviewed and updated. The following are some components to be considered when developing the policy statement:

- The investor's investment objectives and goals.
- The investor's knowledge of financial markets and investments, and overall experience in investing.
- The capital or income sources of the investor. This includes the overall financial position of the investor.
- The risk appetite/tolerance of the investor. Understanding if the investor is either conservative, moderate or aggressive when accepting risk.
- The investment's time horizon. This is influenced by the age of the investor and how long investments will be held.
- Standards for evaluating the portfolio performance. This will allow the investor to judge the performance of the portfolio manager.
- Legal and regulatory factors since there may be constraints to investment strategies for individuals and institutions.
- Taxation concerns to ensure compliance for statutory requirements.

Examine the Environment

Portfolio managers will need to study the current financial and economic conditions to forecast future trends. Economies are dynamic and they are affected by numerous components related to aspects such as politics, changing demographics, climate and culture. The portfolio manager should be constantly monitoring financial market performance to ensure investor objectives are achieved.

Implement

The next step will be the construction of the investor's portfolio. With the policy statement and the environmental forecast as inputs, the portfolio manager will create and implement a suitable investment strategy, while aiming to minimise investor's risk as specified in the policy statement. The portfolio manager will also determine how to allocate the investor's funds across various securities, locally and or internationally.

Feedback

The portfolio manager should be constantly engaged in monitoring the investor's needs and the financial market conditions. Performance of the portfolio should be monitored against the policy statement to ensure objectives are being achieved and these results must be communicated to the investor.

The four (4) steps discussed should be considered a continual process. Portfolio managers can have discretionary control of an investor's portfolio. The term "discretionary" indicates that the

decision to buy and sell securities on behalf of an investor, will be made at the portfolio manager's discretion. Section 61(2) of the Securities Act 2012 (SA 2012) states that a registrant registered under section 51(1) as a broker-dealer, may only execute investment discretion over a client's account if (a) it has entered into a written agreement with the client granting such authority and (b) the agreement has been signed and approved by a senior officer of the registrant prior to the first transaction for the client. These agreements normally include the policy statements or refer to them, hence their importance within the portfolio management process.

Investors who would like to approach a broker-dealer for portfolio management services should be aware of the aforementioned information. The TTSEC continues to foster development of the securities industry and welcomes participation in the market.

We encourage members of the public who are interested in investing in securities, to visit our website <https://www.ttsec.org.tt/registration/> for a list of registered companies, individuals and securities or consult with professionals registered with the TTSEC for the necessary information.

**For more information, please visit our corporate website, www.ttsec.org.tt.
You may also visit our Investor Education website at www.investucatett.com or
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