How to choose a best Portfolio Management Scheme?

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There are so many Portfolio Management Schemes in the industry. So it is really very difficult to choose a good Portfolio Management Scheme provider. Here are some factors to be considered before choosing a Portfolio Management Scheme.

1) Yardstick for Performance:

One should not just go by the past performance alone. Making an analysis on various Portfolio Management Schemes in the industry with their past performance along with the risk adjusted return and the consistency of performance will be useful in selecting the best Portfolio Management Scheme.

2) Minimum Investment Criteria:

Investors need to avoid Portfolio Management Schemes where the minimum investment is less than 25 lacs. Even there are Portfolio Management Scheme operators who keep minimum investment for their schemes as low as 5 lacs. But these kinds of Portfolio Management Scheme operators will have more number of PMS accounts. When the quantity (the number of PMS Acs) goes up the quality (the performance) may relatively come down.

Therefore it is better to choose a Portfolio Management Scheme where the minimum investment is 25 lacs or more. So that our PMS Ac will be directly handled and managed by the top level portfolio manager and not managed by the juniors and analysts. If you are planning to invest less than 25 lacs, then the ideal investment product for you would be mutual funds.

3) Conflict of interest:

Portfolio Management Schemes have been run by some stock broking companies as well as investment management companies. There is a conflict of interest in Portfolio Management Schemes run by share broking companies. The main business of a share broking company is to earn commission income by facilitating the share market transactions.

Portfolio Management Scheme is an additional business for them. It is not their core business. Hence there may not be enough focus on the Portfolio Management Scheme business. Also they may indulge in doing undue and unnecessary churning of the clientsâ€™ portfolio to earn more commission income. This will cause additional expenses and short term capital gain tax to the client.

The core business of investment management companies is managing the investments of their clients to earn management fees. So, with the Portfolio Management Schemes run by investment management companies, there is no conflict of interest or vested interest. Therefore it is always advisable to choose a Portfolio Management Scheme offered by investment management companies.

4) Role of Professional Financial Planners:

A professional financial advisor or financial planner will study and analyse the Portfolio Management Schemes run by various stock broking companies as well as investment management companies. If we approach them, they will guide us in choosing the right Portfolio Management Scheme depending upon our requirements and other factors.

Also a professional financial advisor will continuously monitor the performance of various Portfolio Management Schemes and advice the client on a regular basis on the performance of the Portfolio Management Scheme where the client has invested vis a vis the other PMS schemes in the industry. After a certain period, if necessary he may advice you to move from one Portfolio Management Scheme operator to the other.

ESOPs and Portfolio Management Scheme:

ESOPs are provided by the companies to its employees based on their service. Most of the employees are of the opinion of keeping the ESOPs as it is forever because it is their company shares. But logically it is too riskier to invest in a company to whom you work for. Because, your employment income as well as investment income will depend on the performance of a single company.

So it is not advisable to keep your investments in a company where you actually work. So it is at all times advisable to transfer your ESOPs to a Portfolio Management Scheme. They will revamp it to construct a well diversified portfolio.

Portfolio Management Scheme is an aggressive investment product and really suitable for those investors

â€¢ Who have a share portfolio and find it difficult to manage.

â€¢ Who have enough exposure in Mutual funds and looking for a different and good investment option

â€¢ Who have sizable ESOPs.

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