# When do you Fire a Mutual Fund?

With a Mutual Fund, like any other investment, we need to understand a few things before we take action, like buying in the first place, or like selling because we are not happy with the performance.

- Why did we buy it?
    - Was it for stability, was it an opportunity purchase, was it to do a specific job, or some other reason. And then, is the fund still doing its job, or is it still expected to do that job.
    - If the job you want done is no longer relevant, or the opportunity is past or even never materialized, then maybe it's time to rethink this holding
- How is the fund doing relative to its peer group?
    - Are other similar funds doing better or worse.
    - If your fund is doing worse, we may want to reconsider using it.
    - In here we should also review the fees associated with the fund. If they are high, but you are still getting good quality performance, then the fees may be worth the price. If they are high, and performance is suffering without a good explanation, then maybe it's time to move.
- What about the fund manager and the fund mandate?
    - If the fund rules (how it operates and what it's allowed to do) have changed you may want to drop the fund if it's no longer relevant to your needs
    - In most cases when we buy a fund, we are buying the fund manager's ability to buy and sell for you in a limited part of your total investment. If that manager is no longer there, and we no longer have his level of expertise or his track record to count on, then we may no longer have confidence in the fund.
- What about the fund company that runs this fund?
    - Sometimes one fund company merges with another company. If that happens, you may no longer have access to the same set of funds or managers you once had. We stay with a particular fund company because IF the one fund you have does what we expect or better, we need options on what to do with the extra profits. If you make money on one fund and we want to diversify those profits to another investment, or we want to move from that one sector that has just out-performed, we need good quality alternative investments available in the same fund company.
    - Sometimes the new fund company doesn't have the same focus on clients. We might have a problem, and the client service department may not be willing to help. If that happens (and it does) we may need to rethink our investment supplier and move on.
- What the heck, what if my darn fund is just down and I'm not happy?
    - Maybe we bought it because it's down, in which case we want to keep it because it's actually a great buy and we are waiting for the bounce-back. It might even be time to buy more, but subject to the above considerations – all of them. Do a full review and then decide.

- Maybe – check your notes on this one – we expected things to go down and we are waiting for a recovery. It may be time to reduce your risk if you're getting closer to retirement, but let's do that at the top when we can do it with profits in our pockets. Doing it at the bottom may just guarantee losses and leave us missing an opportunity to 'top up' your investment account before we move to a new stage.
- Maybe it's just underperforming and time to drop it. Evaluate and then decide.
- Maybe there is a new manager who isn't up to the job or has made judgement errors. Time to move on.
- Maybe it's expected to be down, but it's still doing a valid job for us and we want to hang on.
- Maybe a move (in a non-registered or OPEN plan) will trigger tax issues and we want to re-think.
- Maybe a move will trigger tax issues and we actually want that?
- Or maybe you just can't sleep well with this thing gnawing at your insides. You need to tell your adviser. If you perhaps thought you could handle this but you can't, it can be fixed. Discuss it, and find a way to make things better. You might be surprised – things may not actually be as bad as you think once you look at the big picture. Or it might be time to look for a 'lower risk' option for you.

All of these concerns should be discussed with your adviser.  Clients get emotional about their investments, which makes it harder to make objective decisions about things. An adviser should be free of the emotional bias, and should have a much deeper knowledge of the fund's characteristics than most clients. In many cases an adviser will have met the manger personally and should have an opinion of him or her as a person as well as an investment manager. That makes a difference in being able to trust what we hear and see from them. An adviser may also have, or be able to find a history of the particular fund when economic circumstances were similar in the past.

Your adviser should have some idea of what to expect, or an ability to understand why things are the way they are right now. You should be able to discuss a particular holding with your adviser on these terms, and get the answers you need. A good adviser doesn't buy a fund because it's 'hot right now'. That was last year's performance and it's done now and often not repeatable. At Architype Financial we have a list of 10 reasons to consider when buying or re-evaluating a fund position. They all have to be considered and re-checked regularly. In our opinion, an adviser who isn't doing this for you, simply isn't up to the job you are paying him to do.

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