Investment Management Firm- Windward

This report analyzes an investment management firm, Windward. It is a well established registered investment advisor, which has been working as an independent money manager for its clients. The core client base of the firm consists of the high-net-worth individuals and the family offices. Windward Investment Management Company has witnessed a rapid growth in AUM (assets under management) in past 10 years, but now the company is considering a range of future growth opportunities and how to finance those opportunities, including raising external capital. The case focuses on the decision of what opportunities, Windward should consider and on the valuation of the firm if it decides to raise external capital.

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For the purpose of deriving a structural analysis, report is divided in 6 chapters. Chapter one is of introductory chapter. This chapter acquaints the reader with the background of the study. Here the statement of problem, aims and objectives of the study and a detailed synopsis of the entire report’s structure has been disclosed. Beginning of the chapter sketches the pertaining business process, client base, situation, working etc at Windward.

In the second section case description is given. Here a detailed picture of the case has been drawn. This chapter gives details regarding the company, company’s management, business process, its evolution, industry etc. This chapter provides ground to the entire study.

Statement of problem backed by the case brief will be defined in this section of the report. All the relevant concepts and theories will also get introduced and discussed here only. Such discussion will be termed as the literature review of the topic. Further a detailed plan for analysis will be carried out along with defining the most appropriate sources of data for the study. Through data analysis in accordance with the proposed plan of analysis, assessment of the current position of the firm will be done and further the prospective strategies for the firm will be derived.

In the fifth section of the report a detailed and integrated analysis of the findings will be done. Through the discussion, recommendations for Windward will be scaled out. On the basis of the recommendations and discussion a plan of action will be proposed with a rigorous discussion on the limitations of the study conducted or the derived results. Further the chapter will end with discussions on the scope of further studies. Sixth chapter will be concerned about the utility of the study for the other players of some other industries. Here, the learning of the entire analysis will be briefed and applied on any other industry unit.

1.Introduction

1.1 Background

This case is about an investment management firm, Windward. It is a well established registered investment advisor, which has been working as an independent money manager for its clients. The core client base of the firm consists of the high-net-worth individuals and the family offices. It is functioning in Manchester with its 38 highly talented employees from different educational backgrounds. Total asset under management i.e. AUM has been $3.6 billion till 2010.

This firm is originated in late 1999 and founded by the sole owner, Steve Cucchiaro. Steve is a MIT graduate in applied mathematics. Further an MBA, which has been done by him from Wharton School, Pennsylvania in 1977. After completion of the MBA, Steve has joined as a financial consultant at Coopers & Lybrand, then Data Resource Inc. He has also worked as the strategic consultant at Massachusetts office of CSP international, Cambridge. Later in 1985, Steve has joined Cox Enterprise and subsequently opened Datext.

Steve Cucchiaro further resigned from the job and started working from a rented office at Manchester. This time again, it was an IT venture, which was offering consultant to ICAD Inc. Steve worked independently till he was assigned the president-ship by the firm. After amalgamation of ICAD and Oracle, he left ICAD and started an S Company, Windward in association with his two friends with a capital of $3 Million in 1994. After five years i.e. in 1999, Windward was placed in the RIA industry with AUM of $ 30 million. From here, the journey of Windward in the RIA industry started.

Basically RIA companies have a duty to perform in the best interest of the client. This duty makes such firms more enduring for the clients and has resulted in the rapid growth in the total AUM and number of players in the industry. As per an estimate, there are about 14,000 to 17,000 RIAs in US. This industry is highly concentrated, as an estimate shows that 90% of the AUM is managed by 20% of the firms. Contrasting with the mutual fund industry, RIAs has to manage many unique portfolios according to the requirement of the clients. Portfolios can be made up of individual scripts, bonds, ETFs or mutual funds etc. Windward is largest user of ETFs among the RIAs.

Windward solely focus on the investment management by asset allocation rather than the individual security selection for its clients. It attempts to exploit the pertaining inefficiencies across the global markets with a long term approach towards investing. The investment universe of Windward is defined in terms of 40 market indices, which track the performance of the securities across different continents. ETF is used by it as the investment vehicle. Windward has expanded its client base by offering services to not only the high-net-worth individuals but to the institutional investors. In 2010, 75% AUM has come from the high-net-worth individuals and 25% from the institutional investors. There have been three distinct investment strategies in accordance with the risk tolerance of the clients.

A global strategy model has been developed by the firm, which attempts to map the macro level inefficiencies. Such inefficiencies are the result of the delayed response of different economies to the global economic conditions. It analyzes such changes in an integrated fashion where all the economies in the world are studied for the reaction to a specific situation simultaneously. This model has evolved with a constant improvement and revision process and needs a timely revision for being effective. All the Tuesday meetings of the company aim primarily for such revisions. Both core and tactical components of the portfolios are determined by the model only. The core component is determined through the sharp ratio or the extensive back testing and scenario analysis. The proprietary model guides in tactical asset allocation. This model gives a list of the market indices where the company has invested. This list covers the estimated risk adjusted returns for 12 month period, on this basis; all the listed indices are ranked for the preference. This ranking describes the relative attractiveness of the asset classes.

For a long, Cucchiaro has been the only to modify the model but now two principals have joined the research team and started experimenting with the model through different research tools, such as sensitivity analysis, stress test and others. In investment committee meetings, discussions on the model alteration are done. Modification only implemented if results in increased returns, lower volatility and drawdown risk.

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ETFs are used for investment vehicles to implement the strategies. After accomplishing the model ranking and portfolio allocation, rebalancing of the portfolio starts. Rebalancing for the client portfolio is done thrice a year in normal circumstances. Average annual turnover of portfolio is 40%. A team of 10 to 15 is liable for implementation of the strategies, which is headed by Denise (managing director of operations and client services).

Portfolio implementation for each client is done separately for their each account. Almost 2300 clients are there holding nearly 6700 accounts in total with Windward. Many clients have multiple accounts. Company works with 17 custodians. For the period 2002 to 2009, Windward portfolio strategies have fared higher than the benchmarks. Compounded annual return of the diversified conservative portfolio has been 6.6% Vs 5.4% for the benchmark i.e. the Barclays Capital U.S. Aggregate Bond Index. 8.1% compounded annual return for the diversified growth portfolio has been recorded with benchmark return of 3.4%. Lastly, compounded annual return for diversified aggregate portfolio has been 9.9% with comparison to the benchmark return of 1.6%. All these returns are fared without using the leveraging and shot selling techniques.

The employees are not only belonging to the finance background but from mathematics, econometrics, statistics, engineering, management experts are also there. Firms rapid growth is backed by the Cucchiaro’ investment approach together with the entrepreneurial front of its principals. Company also has a six member advisory board for developmental advices. An open and transparent culture persists there in the firm. Company is owned solely by Cucchiaro and other principals and directors are entitled for the phantom equity.

In the following sections, all the issues and operating strategies of the Windward will be analyzed and most effective solutions to the issues will be derived. For this, different research tools will be used.

1.2 Statement of Problem

Windward is a brighter star in the sky of registered investment advisory (RIA) industry. It is for now catering to the Niche market of the high-net-worth individuals and family offices. But now the concern of the firm is to increase its client base and funds. Key problems in this are defined as below:

Whether the firm should go for increasing client base strategy?

What is the best suitable fund raising means?

What is the most suitable growth strategy firm should adopt for sustaining future growth prospects?

1.3 Research Aims and Objectives

This report aims to spot out the best alternates for Windward in order to overcome the existing issues. This will result in the enhanced effectiveness of client satisfaction. This study will enable us to recognize the challenges and their solutions faced by Windward in the RIA industry. Also, different means of dealing with these situations will be analyzed. This research has been structured for attaining 3 research objectives. 1st objective is to have an insight of the RIA industry. 2nd the research objective is to explore different alternatives of growth strategies for Windward. Last but certainly not the least the 3rd objective is to identify the most suitable financing alternative for Windward in the existing situation.

This report is segregated into six chapters. These are named as Introduction, Case brief, Problem statement and plan of analysis, Analysis and findings, proposed solution to problem and reflective statement.

Chapter one is of introductory chapter. This chapter acquaints the reader with the background of the study. Here the statement of problem, aims and objectives of the study and a detailed synopsis of the entire report’s structure will be disclosed.

The second chapter deals with the case description. Here a detailed portrait of the case will be drawn.

Statement of problem backed by the case brief will be defined in this section of the report. All the relevant concepts and theories will also get introduced and discussed here only.

Through data analysis in accordance with the proposed plan of analysis, assessment of the current position of the firm will be done and further the prospective strategies for the firm will be derived.

In the fifth section of the report a detailed and integrated analysis of the findings will be done. Further the chapter will end with discussions on the scope of further studies.

Sixth chapter will be concerned about the utility of the study for the other players of the industry and a reflective statement will also be provided at the end of the report.

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