

Project Review: Providing Investment Advice for Private Investors

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Introduction

This review discusses the diverse needs of investors at different life stages, the common challenges I encountered as an investment advisor, and highlights the solutions, limitations I, and the lessons I learned when working as an investment advisor.

Investor Demands Across Life Stages

Modern Portfolio Theory (MPT) suggests that investors can maximize expected returns for a given level of risk. While maximizing returns is a core objective, private investors also prioritize practical goals such as maintaining their lifestyle, funding education, and covering healthcare expenses. These priorities vary significantly depending on life stage:

Investor needs vary widely with financial status and life stage. For example, a teenager may require significant resources for education, a young professional might focus on a mortgage or childcare, and a retiree typically needs steady income to support lifestyle and healthcare. This diversity adds complexity to portfolio selection and underscores the value of professional investment advice and strategy.

- **Teenagers** may require substantial funding for education.
- **Young professionals** often focus on mortgage planning and budgeting for children.
- **Retirees** typically seek stable income to support healthcare and lifestyle needs.

This diversity in financial status and life context necessitates tailored investment strategies and professional guidance to construct suitable portfolios.

Common Challenges in the Investment Advisor Role

Investment advisors are expected to possess superior knowledge and information resources to make sound decisions and provide valuable guidance. In practice, several

challenges complicate this role: imperfect information, conflicts of interest, and difficulty persuading clients even with correct advice.

Imperfect Information

Financial markets evolve through a chain of idea creation, research, production, consumption, and social benefit. Investment returns at each stage depend on uncertain probabilities. Because no outcome is guaranteed, advisors must strive to improve information accuracy, yet even the best efforts cannot ensure consistent success. The advisor's goal is to recommend the most suitable portfolio options based on available vehicles and each investor's constraints and objectives.

Conflicts of Interest

Commission-based compensation can create conflicts between advisors and clients. As in many industries, some advisors may be tempted to prioritize personal gain over client welfare. High-profile scandals such as Enron illustrate how unethical financial practices can cause significant losses. This inherent risk makes it particularly challenging for financial advisors to earn client trust, especially when investment outcomes are uncertain.

Correct but Unconvincing Advice

Even when advice is technically sound, clients may reject it due to cognitive biases or market sentiment. For example:

- **P2P Lending in China:** Around 2015, the Chinese government promoted P2P (peer-to-peer) lending as a financial innovation. Despite my caveats that many projects were fraudulent, clients who saw short-term returns were unconvinced by this warning. In 2020, the government officially declared P2P lending illegal and high risk, validating my initial concerns.
- **China Real Estate Market:** In 2015, the author predicted that China's real estate market was highly risky due to high developer and local government debt, and a clear decrease in civilian income expectations. Many clients, however, based their judgment on the market's previous growth from 2004 to 2015 and disagreed with

the advice. In subsequent years, the market declined, and many clients incurred huge losses, with numerous large developers going bankrupt.

Solutions, Limitations, and Lessons Learned

In advising clients, I provided detailed portfolio analyses covering government bonds, corporate debt, securities, insurance, mutual funds, and funds of funds (FOFs). I carefully reviewed financial data, company backgrounds, market analyses, and earnings reports. My industry experience helped me detect exaggerated or distorted information, enabling early recognition of risks in P2P and real estate investments despite their popularity.

Despite this diligence, my advice was not always convincing, highlighting a key limitation: the lack of professional reputation and the need for more effective instructional skills.

The experience provided valuable lessons that led to my plan for future growth. To address these limitations and strengthen my expertise and influence, I plan to pursue professional certifications like the **Chartered Financial Analyst (CFA)** and a **Ph.D.**, while also developing deeper quantitative analysis skills. This will enhance professional credibility and improve the ability to provide more convincing, data-driven advice.

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