

YOUR MONEY

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Managed Accounts Provide Flexibility

Q. I just took a look at my fairly sizeable portfolio and am not very happy with what I see. I am primarily invested in mutual funds and it looks as though most of my profits are being eaten up by high fees. Although I enjoy learning about the markets, I like to be hands-off with my investing. Can you suggest any alternatives?

A. Your situation is not uncommon. Many investors become disillusioned with their mutual fund investments when they realize that as their portfolios have grown in size so too has the number of holdings. They find that they've wound up with far too many funds, creating portfolios that are both costly and over-diversified.

For investors in your situation – you have a large portfolio but too much is in mutual funds - there are options. If you wish to continue the hands-off approach and would like to move away from the mutual fund world, you might consider separately managed accounts (SMAs).

On the surface, SMAs look like mutual funds. That is, you gain exposure to a basket of individual stocks and bonds, and a professional, institutional-caliber portfolio manager handles the day-to-day investing and ongoing rebalancing. However, there is a very important difference – with an SMA you have *ownership* of the underlying securities. Instead of owning shares of a mutual fund, *you own each individual security within your account*.

SMA investors are able to tailor their portfolios to their investment goals by taking advantage of different investing styles and sectors, or even emphasizing their specific preferences. For example, if you are a socially or environmentally responsible investor, you can prohibit investments that are counter to your beliefs.

Since SMAs provide ownership of the individual stocks and bonds, customization can be taken a step

further. Investors can make specific selling decisions based on their unique tax situations. When used properly, you can actually harvest tax losses and shelter capital gains or vice versa. When it comes time to face the tax man, this can prove to be an *enormous benefit* over mutual funds.

Another important consideration is the cost to invest. On average, the fees attributed to SMAs are very competitive with mutual funds and, in many cases are lower. Investors with large portfolios can often negotiate their fees. And, SMAs are not subject to any sales charges. The accounts are fee-based with the fees including money management, sales, trading, and custody charges.

SMAs are not short term investments and you should expect to invest with at least a two to three year time horizon. In my opinion, you should consider investing in a couple of different SMAs and you should select experienced portfolio managers with *solid long-term track records*. Further, you should make certain the SMAs are not perfectly correlated and mix investing styles to better diversify your portfolio. SMAs are not for everyone and may be out of reach for some investors, as most have a minimum investment requirement of \$100,000.

However, if SMAs are an option that would work for you, then you must familiarize yourself with all the options. You should never feel as though you are limited to certain products, nor should you ever feel as though you are unable to make changes. Your financial health is of utmost importance and it is essential to keep it in good shape.

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