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Benefits of Separately Managed Accounts

Separately Managed Accounts are known under a number of other names including individually managed accounts, privately managed accounts or simply—managed accounts. In most cases these distinctions are purely a matter of branding by the firm offering the product. In the same family of investment products are Diversified Managed Accounts, Multiple Style Portfolios and Unified Managed Accounts.

These accounts all have some important attributes in common:

- They all contain individual securities that are managed by a professional money manager.
- The client turns over management of the account to the manager and does not have direct control over investment decisions in the account.
- The client may place certain restrictions up front about what may and may not be purchased in the account.
- The client may fire the manager at any time.
- The client is charged a fee for the services of that manager.
- Usually, the client is not charged commissions on trades done in the account by that manager. While this is WrapManager's policy, some other firms do charge the investor commissions in managed accounts.
- Diversified Managed Accounts, Multiple Style Portfolios and Unified Managed Accounts are managed accounts that have more than one manager. Each manager runs a portion of the assets in the account and is responsible for implementing different investment strategies. Sometimes an overlay manager is used to coordinate changes in the account and attempt to minimize the tax consequences of those changes.

As of January, 2007, it is estimated that approximately $720 billion are in Separately Managed Accounts and another $140 billion in Multiple Style Portfolios and Unified Managed Accounts.[1]

At WrapManager we specialize in Managed Accounts and in making them accessible to a broader range of investors than ever before. To this end we wanted to take some of the mystery

[1] Tiburon Strategic Advisors, Jan 2007

out of managed accounts that the industry has fostered over the years. We feel that managed accounts offer seven important advantages to investors:

1. Broad range of investment choices
2. Customized asset allocation
3. Quality money managers
4. Income tax management
5. Competitive fees
6. Investment restrictions
7. Transparency

Broad range of investment Choices

The first benefit of privately managed accounts is access to a wide variety of investment choices. At WrapManager, we recommend a diversified portfolio of managers representing a blend of styles and strategies. We have programs with access to managers with over seventy strategies. Virtually every asset class is represented in the pool of managers we draw from. This range of choices is critical to building a well diversified portfolio.

These asset classes may include large and small capital common stocks, growth and value stocks, government, municipal or corporate bonds, and foreign investments. Most managers will specialize in a particular strategy or style such as Large Cap Value Equities, Emerging Markets Growth Stocks, or High Yield Corporate Bonds.

Customized Asset Allocation

Many sophisticated institutional investors, such as pension funds and large foundations use this approach to investing. They use Modern Portfolio Theory to manage their risk. According to Modern Portfolio Theory, to adequately diversify your portfolio, investments should be spread among different classes of assets whose returns are not highly correlated. Based on the Nobel Prize winning work of Harry Markowitz and William Sharp, Modern Portfolio Theory asserts that investors should allocate their investments among different asset classes and match their asset allocation to their risk tolerance.

Deciding how much risk you are willing to accept, while taking into account such factors as your age, income level and financial objectives, is a key factor in developing your investment philosophy. Clearly, an investor with a longer time horizon can usually afford to assume greater short-term risk in exchange for potentially greater long-term returns than an investor will need income from their investments immediately or in the near future.

This strategy helps to reduce the effects of market volatility, manage risk, for a given level of overall return. Your risk tolerance, investment objectives, time horizon and available capital will provide the basis for the asset composition of your portfolio. The possible variations of asset allocations range from conservative or low risk to aggressive or high risk and many allocations in between.

The process of developing a customized asset allocation for you may seem involved and complicated at first, but its main goal is wealth protection and production, through a strategy that's built carefully around your personal risk tolerance, time horizon and investment goals. Our Wealth Strategists make it easy.

Quality Money Managers

Once an asset allocation strategy is determined, your Wealth Strategist will choose managers to implement that strategy. This could occur in a single, multi strategy account or in several separately managed accounts.

In the institutional investing world, once the institution has an asset allocation, it hires different investment managers to make the specific investments in each asset class. Usually an investment committee will manage this portfolio of money managers over time and make changes when managers fail to perform or the needs of the institution change. WrapManager has been providing a similar service for individual investors for over eight years.

Institutional investors have long known about private money managers and the investment strategies they provide. Until recently, individuals could only get access to these managers if they had millions of dollars to invest. Through WrapManager, investors with as little as $500,000 can get access to these institutional money managers.

Investment Restrictions

Managed accounts are similar to mutual funds in many of the advantages discussed above. For many investors, managed accounts can offer several important advantages over mutual funds. One of these is customization. If you own a mutual fund, you cannot restrict what the fund manager will buy. Your mutual fund shares contain the same investments as those of every other owner of the fund.

Customization in managed account can involve restricting certain types of investments, which would mean that the investment manager would not buy certain investments in your account. For example, you could restrict the manager from buying tobacco or alcohol stocks, or limit your investments to stocks of socially or environmentally conscious companies—even green investing. You can also restrict specific securities. For example, if you are an executive of XYZ Corporation and cannot buy shares of XYZ, this type of restriction can often be accommodated by a SMA investment manager.

While restricting managers may impact their performance, if you have strong feelings regarding social responsibility, the environment or perhaps even faith-based values, you can implement those beliefs through a SMA. Restricting an account does not mean that you cannot have a change of heart down the road. You can impose or remove restrictions at any time.

Income Tax Management

The potential for tax efficiency is another compelling advantage of a separately managed account over a mutual fund of the same strategy. To illustrate, a mutual fund may pass along built-in taxable capital gains to the investor that accumulated before the investor purchased the shares. If you buy a fund late in the year, you may be taxed on a fund distribution that reflects transactions that occurred before you bought the fund.

However, because the portfolio in a separately managed account is assembled from scratch, you don't inherit anyone else's tax consequences. You pay tax only on any net realized gains you actually have received.

In addition, the manager can also work with your tax advisor to employ loss harvesting techniques if appropriate. Under this strategy your manager sells positions that have gone down in value to capture the tax loss. The position is either replaced with another, similar security or repurchased after the 30 day wash sale period has passed.

Finally, separately managed accounts may enable investors to more easily carry out certain gifting strategies for estate planning and tax purposes. WrapManager's advisors are happy to work with you and your tax advisor to discuss estate planning and tax strategies.

Competitive Fees

WrapManager charges an all-inclusive fee of 1.5% for separately managed accounts[2]. This fee is very competitive. Some firms charge as much as 3%. This management fee is paid quarterly and includes commission costs. You pay no commissions on trades in our managed accounts.

[2] Some managers may charge more for certain portfolios.

Depending upon the ownership of the account and underlying investments in the separately managed account, the fee paid may be tax deductible to the degree permitted by law. You are free to terminate the relationship at any time without penalty. Any unused portion of the fee will be returned on a pro-rata basis.

Mutual funds charge similar fees. Front end loads are obvious, but even no-load funds charge management fees that are sometimes less visible. Other fees include as 12b-1 fees, back end sales loads, and redemption fees. These fees vary by fund. Unless you read the prospectus carefully it can be difficult to understand the full cost of owning a mutual fund. A managed account fee is competitive with most mutual funds.

Transparency

Managed accounts provide you with comprehensive performance reporting, and full disclosure of all costs. There are no commissions resulting from routine purchases and sales of stocks and other securities for the account. The fee is a flat percentage of the portfolio balance, usually incurred quarterly. It is easy to see and understand the cost of your account.

You know, at all times, what investments you own and receive full reporting on the costs associated with managing their accounts. Unlike mutual funds which deduct fees behind the scenes, you can easily identify the fees in a separately managed account and because the charges are itemized on your statements. WrapManager clients have online access to their accounts. They know every investment held in their portfolios at all times and every penny spent to manage their portfolios.

Your monthly account statement will provide you a complete picture of the individual securities you hold, as well as the number of shares you own. It provides the current value of the securities you own; the cost basis of each security; details of account activity (such as purchases, sales and dividends paid out or reinvested). Your quarterly account summary will also provide your portfolio's asset allocation; and performance in comparison to the appropriate benchmark.

WrapManager is dedicated to helping individual investors like you incorporate managed accounts into a diversified portfolio designed to reach your goals. For more information, call us at (800) 541-7774 or click for a FREE Money Manager and Asset Allocation Proposal today. We look forward to serving you.

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