Client Conversations

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Is a Separately Managed Account Right for You?

For some investors, investing in a separately managed account may have advantages over investing in mutual funds or ETFs.

Mutual funds and ETFs are popular and familiar investment vehicles to many investors. But if you have a significant amount of investable assets, you may want to consider other options that may offer additional advantages.

One of these alternate vehicles is what's known as a separately managed account (SMA). Much like a mutual fund or an ETF, an SMA is an investment portfolio managed by a professional investment team on behalf of an individual investor. All three types of investments may help you achieve your financial objectives. However, there are other similarities and important differences to consider in deciding the right type of investment for you.

Key Points

- SMAs may be an appealing investment choice for high-net-worth investors.
- Mutual funds, ETFs, and SMAs share many common attributes, but each have some unique advantages and drawbacks.
- Talk to your financial professional about whether an SMA is a good fit for your investing needs.

Similar Benefits, but Significant Differences

One of the main advantages to an SMA is that you own the underlying securities, yet all trades and portfolio management are handled by the account provider or your financial professional. SMAs can also provide the option to customize the portfolio to individual goals or needs, as permitted by your financial professional or account provider. This differs from a mutual fund or ETF in which a professional investment team makes investment decisions for a pool of assets, and as an individual investor, you own shares of those pooled assets.

Since the ownership is different, so is the transparency level of the different vehicles. As the owner of the underlying investments in an SMA, you can view the individual holdings and their values at any time. This offers more transparency than both a mutual fund or an ETF because mutual funds generally release their holdings to the public monthly (although only quarterly reporting is required); ETFs typically release their holdings at the end of each trading day.

SMAs can also have tax advantages over mutual funds and ETFs. In an SMA, you're only responsible for tax liabilities on the individual securities you own and any trades that are made on your behalf. And with an SMA's potential for customization, your provider may be able to apply tax-loss harvesting—a process of selling underperforming holdings to offset capital gains from stronger-performing holdings—within the SMA, which can lower your portfolio's tax liabilities.

By contrast, mutual-fund shareholders may incur tax liabilities via capital-gains distributions. This happens when trade decisions by the portfolio-management team result in gains that are distributed to all fund shareholders. Capital-gains distributions tend to be less common with ETFs.

Important Considerations to Keep in Mind

As with all investments, SMAs may also have some potential risks and disadvantages, too. Just like a mutual fund or ETF, an SMA can underperform or lose value. Unlike a mutual fund or an ETF, in which you are removed from the investment process, a custom SMA may require more attention because of increased communication with your financial professional. And due to their greater customization potential and professional management, SMAs may incur higher management fees.

SMAs also have significantly larger investment minimums, often $50,000 to $100,000. For mutual funds, minimums are often just a few thousand dollars. ETFs can be traded on an exchange like a stock, so rather than an investment minimum, you pay the current market price of each share; prices vary depending on the ETF, but a share price is often several hundred dollars or less.

SMAs vs. ETFs vs. Mutual Funds

	SMA	ETF	Mutual Fund
Managed by professional investors	●	●	●
Transparent	●	●	
Individual ownership	●		
Customization	●		

If you have the required minimum investment and would prefer to own your investments directly, but would still like professional account management, ask your financial professional if a separately managed account is right for you.

Ask your financial professional if an SMA is a good fit for your investment goals and situation.