

Separately managed account

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A **Separately Managed Account**, or SMA, is an individual investment accounts offered by financial consultants and managed by independent money managers under an asset-based fee structure. With such a broad definition, many types of accounts might fit the definition of an SMA. There is no official designation for the SMA but there are common characteristics that are represented in all SMA programs. These characteristics include a fee-based cost; open investment choices; multiple managers; and a customized investment portfolio formulated for a client's specific needs.

SMA's were developed in the 1970's to accommodate accounts and clients who needed to meet specific objectives, which did not fit within the constrictions of a mutual fund investment. It is the freedom of choice of professional managers, portfolio customization, objective investment advice for a set fee, diversification (or concentration should the client choose) tax efficiency and general flexibility that have made separate accounts popular among informed investors.

Some people question if separately managed accounts actually provide significant advantages in terms of risk/return over more typical portfolios. There is no clear answer, and without comprehensive data, any evidence is largely anecdotal.

SMA's also enjoy some popularity among wealthier investors and their financial advisers as they are seen as exclusive, and offer investment options not available to those of more modest means. According to the *State of the Financial Advisory Industry: 2008* report, SMA's are popular picks among advisers at national broker/dealers and wealth managers. Advisers at national broker/dealers and wealth managers (defined as any financial adviser with a client asset minimum of \$2 million or above) made much more aggressive allocations to SMA's than the average. The national broker/dealers allocated 29 percent to separately managed accounts, with 17 percent to mutual funds; wealth managers allocated 18 percent to separately managed accounts and 28 percent to mutual funds.

[1]

Latest Performance

Average 2008 Performance: Separately Managed Accounts (SMA's) Outperformed Mutual Funds

Type	SMA	Mutual Funds	+ / -
Large Cap	-34.79	-37.9	3.11
Large Cap Growth	-38.44	-40.9	2.46
Large Cap Value	-34.94	-37.38	2.44

Middle Cap	-37.13	-39.68	2.55
Small Cap	-34.77	-36.88	2.11
Foreign Large	-42.3	-44.06	1.76
Intermediate Bond	0.73	-5.07	5.8
Source: <i>Wall Street Journal</i> , 2009, http://online.wsj.com/article/BT-CO-20090311-709502.html?mod=			

For 2008, the global stock market lost US\$21 trillion in value. However, the *Wall Street Journal* reported that separately managed accounts performed much better in 2008 than mutual funds. ^[2]

Morningstar, Inc. found that SMAs outperformed mutual funds in 25 of 36 stock and bond market categories for not only 2008, but also 2006 and 2007. That's right, SMAs beat mutual funds the past three years. The *Wall Street Journal* cited top SMA performers including Robinson Value Management Ltd's Market Opportunity Composite Strategy, and PTI Securities & Futures LP's Protected Index Program. ^[3] The *Wall Street Journal* added that SMAs work best for investors with at least \$1 million or \$2 million to spread among various SMA strategies. The story said that, "One reason SMAs may be outperforming mutual funds is that individual SMA strategies tend to have smaller amounts of assets than popular mutual funds, allowing them to trade more nimbly."

Pensions & Investments, a national US investment trade magazine, identified several of the top performing SMAs for 2008. ^[4]

See also

Mutual funds

References

- [^] Registered Rep, SMAs on the rise (http://registeredrep.com/investing/moneymanagers/smas_rise_reuters_advicepoint)
- [^] Times of London, "Global stock market losses total \$21 trillion" (<http://business.timesonline.co.uk/tol/business/markets/article5705526.ece>)
- [^] Wall Street Journal, "SMAs beat funds in 2008" (<http://online.wsj.com/article/SB123679669243098151.html>)
- [^] Pensions & Investments, "Top Performing Equity Managers" (<http://www.pionline.com/apps/pbcs.dll/article?AID=/20090223/PRINTSUB/902199987/-1/TOPPERFORMINGMANAGERS>)

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