

Managing with help

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Bruce Maney might not be able to define a “managed account” but the 52-year-old self-employed electrician is clear about why it is a better place for his superannuation than a managed, or pooled investment fund.

“It doesn’t just go into a big pool with everybody else’s money,” he says. “The shares are in our name. They are actually our shares.

“So if this company [account manager Hewison Private Wealth] goes belly up, it doesn’t affect me” – unlike unhappy investors in several mortgage funds that froze or restricted redemptions following the global financial crisis, he notes.

At the same time, Maney is not interested in managing his own superannuation, which he is happy to leave to the professionals.

“Depending on what sort of a person you are, and how much time you’ve got, you can spend as much or as little as you like [on your portfolio],” he says.

Maney is one of a growing number of investors drawn to the combination of direct ownership and professional management offered by managed accounts.

According to Investment Trends, financial advisers are writing 5 per cent of new business into managed accounts, up from 3 per cent in recent years.

Most advisers told the research firm they expect this share to rise over the next three years, mainly at the expense of managed funds. Indeed, managed funds’ share of new adviser business is set to fall from 65 per cent to 40 per cent.

The drawbacks of managed funds are being highlighted by the repeated failure of many fund managers to beat their own performance benchmarks.

Because managed fund investors buy units in a trust that, in turn, owns the shares (and other assets), they do not receive the full benefit of dividends and franking credits. Instead, these are shared with all unitholders, along with the taxes on capital gains from share sales.

In fact, new investors inheriting the tax liabilities of old ones could end up paying tax on a negative return, warns Brett Marsh, head of sales at OneVue, an administration service for managed accounts.

By contrast, managed account investors deposit a dollar sum into an account, which an adviser, stockbroker or private banker will draw on to buy shares on their behalf.

In the case of separately managed accounts, the money will be invested according to one of several generic or “model” portfolios.

With individually managed accounts (IMA), the asset allocation is determined by an investor’s particular means and ends.

“An IMA provides clients with greater control over their investments,” says Hewison director Chris Morcom. “They can have a more predictable income stream because if they are invested directly, they know the dividend streams are reliable and the income is going to be there.

“Particularly for retiree clients, who are reliant on their income, it is incredibly important to be able to predict what your income is going to be.

“In a managed fund, investors don’t know from year to year what their income is going to be, or what their capital gains position is going to be.

“This micro-level of tailoring is something large-scale managed funds can’t do because the people investing the money have no connection with the people whose money it is.”

Of course, all this tailoring comes at a price: IMA fees can range as high as 2 to 3 per cent of assets. While this is



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already competitive with the 2.5 per cent charged by a typical balanced managed fund (inclusive of investment, platform and adviser fees), technology is rapidly bringing down IMA fees to nearer to the 1 per cent for a typical SMA.

While Hewison has already managed this for its IMA clients, Morcom says investors need at least \$500,000 to qualify. He also concedes that managed account investors are placing a lot of faith in the ability of advisers to implement the portfolio adeptly.

Maney, at least, with \$1 million on the line and eight years from retirement, sees no gain in second-guessing them.

"I am an electrician, not a financial adviser," he says. "These guys advise me on what to do but, in the long run, we say 'yay' or 'nay' to anything we purchase.

"The fee might be a little bit higher but, like anything, you get what you pay for."

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