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## Managing Your Separately Managed Account

**Investors must be active if they want their money's worth**

When Charles Wright, 64, retired from United Parcel Service ([UPS](#)) in 1995, he had a handful of stocks, a few laggard mutual funds, and a pushy broker hungry for commissions. So in March, 1998, he took his \$128,500 and rolled it into a separately managed account with Salomon Smith Barney. As with a mutual fund, he would have a pro taking care of his nest egg. Yet he would also own each stock in his name and could have a say in both the portfolio makeup and in when gains and losses would be realized--which could save on taxes.

From the start, Wright wanted more than the prepackaged portfolio offered by the management company, Citigroup Asset Management, which, like SSB, is owned by Citigroup ([C](#)). He asked for shares of Dell Computer ([DELL](#)), which wasn't on any of the managers' buy lists. And he later added a combined tech and biotech fund to spice things up. Pleased with the results, he put more of his money into the program. He also negotiated a management fee lower than the standard 3%--how much lower he won't say--for the whole lot, worth \$925,000. The original account, worth more than \$234,000, has averaged returns after fees of 17.5% a year. "I know just enough about investing that I don't want to handle my own money," says Wright of Port Ludlow, Wash. "But I want to be in charge."

The separate-account segment is one of the fastest growing in the financial-services industry. Investors have some \$430 billion invested in such accounts--and that's forecast to hit \$680 billion in the next three years. But most of these investors aren't as hands-on as Wright: Only 15% tailor their portfolios with favorite stock picks, according to Cerulli Associates, a financial-services research firm. And only a third of all taxable accounts--representing about half the asset base--gets the much-vaunted tax treatment these vehicles are supposed to provide.

Investment technology has made the separately managed account available to investors with low six-digit sums, as opposed to the \$1 million or more that was once necessary. In other words, you might think you have bought a custom portfolio, but thousands of other accounts look like yours. Unless you continually make your needs and desires known, your account won't be personalized. And without that touch, you have little more than an overpriced mutual fund.

Of course, it's not as if you can pick up the phone and arrange face time with money managers. The financial adviser who enrolled you acts as the go-between, but you are ultimately the one responsible for watching both. "People forget how important the ongoing management is," says financial planner Chris Dardaman Jr. of Polstra & Dardaman in Norcross, Ga. "They've kept these accounts for years, and a lot of them aren't so good anymore." So if you have one of these accounts, consider the following:

-- **Revisit your original plans.** A lot of time went into setting up your account. You and your financial adviser pored over managers' track records, gauged your risk tolerance, and divvied up the money accordingly. But a manager's performance can deteriorate. Make sure the reasons for choosing the original manager or asset-allocation strategy are intact.

If individual managers within the account have trailed their peers, it may be time to shop for new talent. "The question is, are they just having one bad year or did they fundamentally change?" says Dardaman. For instance, some value managers lagged during the bull market and tried to recover by buying growth stocks. Then they fell behind their peers when value came back. Not good.

Sometimes, entire investment teams up and leave, or a competitor buys out the management company; either is a red flag. "We've terminated in excess of 20 managers in the past two years," says Len Reinhart, chairman of the Lockwood Financial Group, which matches separate account investors with money managers. "If we think some of the critical people have departed, we don't give the management company a chance. Let them bring in new people, and we'll see if it works."

-- **Review your asset allocation.** Suppose a few years ago you wanted 50% in U.S. stocks, 25% in international equities, and 25% in bonds. If you've done nothing since, that mix is probably awry, and you own a lot more bonds than you planned. The adviser who put you into the account should have taken steps to put your allocation back in line, but that may not happen automatically. Initial target allocations may no longer work, either. Say you now have a job with a computer company and get company stock in your 401(k). You run the risk of being overexposed to the tech industry.

-- **Put stocks "under the line."** Maybe you decided your managers are doing a fine job after all and, in fact, you want to turn over a handful of stocks you've been tending to yourself. If so, do this very carefully. Managers have been known to sell such stocks because they don't follow them or they don't fit their strategy. That action could trigger an unwanted tax bill. Find out if your manager is willing to tend to these stocks "under the line." That means you won't pay a fee on those assets, but they'll be included on your statement so you can see all your holdings in one place. There's another advantage: Your manager may be ready to buy stocks you already own outside the account. If they're all in one account, you're less likely to be doubling up.

-- **Demand attention to tax issues.** A few inquiries about tax management can do you much good. Keeping an eye on market dips--the best time to take advantage of losses--and it will be evident how deft your manager has been. Wright directs managers to take losses, which he uses to offset gains every month when he sells off UPS stock. Investors should also inform their manager of any circumstances, such as a real estate transaction, that may affect tax returns at yearend. "A client who had significant income from an event outside his separate account might need his manager to generate some capital losses to offset that," says financial planner Louis Kokernak of Haven Financial Advisors in Austin, Tex. "That way the manager can weigh the tax consequences of a sale against the portfolio's need for diversification."

-- **Reduce your fee.** The fee for the average new account of \$225,000 is a hefty 3%--not that investors need pay that much. Often, you can get a lower fee--averaging just under 2%--based on your account size. But if you're not pleased with your manager's performance, don't be afraid to ask for a reduction. Fees "are negotiated at the discretion of the individual separate-account rep," says Cerulli analyst Jack Rabun.

Separately managed accounts hold out the promise of a customized investment portfolio. But they're not

for hands-off investors: If you don't provide input to the managers, you'll be getting less than you're paying for. n

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