NAGDCA NOTES

Managed Accounts: The Recent Surge

Recently, managed accounts have taken a surge in popularity among investors, plan administrators and plan sponsors. These accounts are not a new phenomenon. They have actually been around for approximately 30 years, but have gained momentum in recent years due to the promotion by Wall Street. The current trend has been to move away from transaction-based commissions and move more toward a fee based model when managing assets. This is what has increased the attraction of managed accounts.

Basically, managed accounts are investment accounts that are owned by an individual investor and are managed by a chosen professional money manager using an asset-based fee structure. A financial consultant is also hired to provide advisory services for these accounts. In contrast to mutual funds (which are professionally managed on behalf of many mutual fund holders), managed accounts are personalized investment portfolios tailored to the specific needs of the account holder.

One of the leaders in managed account research is the Money Management Institute (MMI). They have identified major benefits associated with the use of these accounts.

- "A customized investment approach to reach specific financial objectives"
- "Investor's ability to make specific portfolio requests, such as tax-related trading, avoidance of specific stocks, etc."
- "An asset-based, rather than a commission-based, fee structure. One fee includes investment counseling, portfolio management, brokerage fees, and ongoing account administration."

Along with the advantages, one must weigh the obvious disadvantages of managed accounts.

- Due to the flexibility of managed accounts, the investor often incurs a larger fee than that of a mutual fund (i.e. fees in a mutual fund often range from 0.5 - 3 percent, where as managed accounts often begin at 3 percent and continue to grow based on the investment.)
- Because of the investment being independently managed based upon the investor's specifications; it becomes much more difficult to evaluate a money manager's track record who deals specifically with managed accounts versus a money manager who oversees a mutual fund.
- Does the size of ones investment warrant a managed account? These numbers are actually based on an individual investor's finances. Due to the individual focus given to managed accounts many money managers have a minimum investment requirement of $100,000 for an account, whereas a mutual fund typically has a minimum requirement of $1,000.

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The number of managed accounts has risen from 1.8 million in 2002 to 2.1 million in 2005, with assets rising from $399 billion to $673 billion in that same period. The assets of managed accounts have increased by over 59 percent within a three year period and continue to grow annually. With the continued growth of managed accounts many defined contribution plans are beginning to evaluate how these accounts might benefit their participants. As mentioned above, one must weigh the pros and cons of managed accounts based on the individual plan and participant needs. For more information surrounding Managed Accounts, please review: *"Your Guide to Managed Accounts"* at http://www.moneyinstitute.com/book/bookintro.htm.

You may contact NAGDCA Project Coordinator Robert T. Hansel at rhansel@amrms.com or 859-514-9161 for other questions regarding the NAGDCA Note.

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