The Benefits of a Privately Managed Account for Busy Legal Professionals

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If you're a legal practitioner with no time but ample free cash flow—or large bank of savings from a successful career spent working as a lawyer—then you may be faced with a luring problem—where to invest your surplus savings?

There are myriad options when it comes to the subject of personal investment for highly paid legal professionals.

Do you entrust your hard-earned savings with a stockbroker?

A financial planner?

Do you go down the DIY path and subscribe to a never-ending stream of investment newsletters and use a discount broker to execute your orders?

Do you take the passive approach and allocate money to low-cost index fund?

Do you put your money into property and put up with the associated headaches in this asset class?

Then there's the issue of record-keeping, calculation of investment returns, splits, recaps, merger securities, rights issues, end of year tax reporting, the list goes on. All of this on top of your long hours spent working as a legal professional.

Personal investment and securing your family's future can quickly become overwhelming, especially when taking into account the sheer volume of information that is regurgitated ad-nauseam by the financial media and industry experts.

Fortunately, there is a very attractive solution for legal professionals who wish to have their savings professionally managed, without the headaches. One of the best kept secrets in private wealth is the service offering provided by a managed account.

The Convenience of a Managed Account

A managed account offers industry professionals a number of benefits that aren't available through a traditional managed fund (unit trust), stockbroking service, or DIY investment strategy. There are typically three types of managed accounts[i]. These include:

- Separately Managed Accounts (SMA)
- Managed Discretionary Accounts (MDA), and
- Individually Managed Accounts (IMA)

The following table provides a detailed comparison of the three types of managed accounts against a traditional managed fund:

Feature	IMA	SMA	MDA	Funds
Professional fund management	Y	Y	Y	Y
Portfolio constructed from the time you invest	Y	-	-	-
Customised portfolio construction	Y	-	-	-
Client retains beneficial ownership	Y	Y	Y	-
Minimises portfolio rebalancing	Y	-	-	-
Internally geared mandates	Y	-	-	-
Fees tailored to investments	Y	-	-	-
Access via a Product Disclosure Statement	Y	Y	-	Y
Low minimum investment	Y	Y	-	Y
Corporate actions administered	Y	Y	Y	Y
Tax reporting	Y	Y	Y	Y
Transparency	Y	Y	Y	-
Ability to view underlying shares	Y	Y	Y	-
In specie transfers	Y	Y	Y	-
Avoid embedded capital gains tax	Y	Y	Y	-
Netting of transactions	Y	Y	-	-
Exclude stocks from portfolio	Y	Y	Y	-
Tax efficiencies	Y	Y	Y	-

Tailored Like a Good Suit

The table clearly demonstrates the benefits of a managed account service versus a traditional managed fund. They provide a bespoke and very flexible service offering that can be set up in the entity of your choosing, e.g. SMSF, Company, Trust, Individual/Joint holdings, etc.

The benefits of having an Individually managed account (IMA) in particular are very obvious. Under this structure, legal professionals can have their private wealth managed by a specialist portfolio manager. Very few, if any, private investors have an open dialogue with their fund manager. But a private relationship under an IMA structure is a given.

Portfolios can also be tailored to suit the individual needs of legal professionals. For example, you might be a director of an ASX listed company and are therefore unable to invest in certain companies due to potential conflicts of interest, or other reasons.

You may also be looking to construct a portfolio that is ethically responsible. No tobacco, no gaming or casinos, no sweat shop manufacturers, or sloppy oil & gas companies. All of these requirements can be written into your mandate agreement signed with your portfolio manager.

Perhaps the biggest advantage of having a managed account is being able to retain beneficial ownership of individual shares. This is typically true across all three types of managed account but is not the case for a manage fund, or advisory service where holdings can be held in the name of a trust or custodian or other entity—adding further complexity and uncertainty over transparency regarding your actual holdings.

A lot of fund managers are slaves to tracking market indices as well. A portfolio manager running IMAs' for each of their individual clients has no such problem and is free from the burden of having to sell stock. For example, fund managers sometimes have to sell stock at the end of each of quarter to ensure they have a balance in line with the relevant benchmark index. Not having to sell reduces the tax burden for the private investor, overall portfolio turnover and transaction costs.

Management fees within an IMA structure are also negotiable, and—for most providers—there is no additional, brokerage costs, wrap fees, platform fees, entry/exit fees to worry about. A fixed percentage on the gross value of assets under management is the industry norm.

Some clients can elect to have a mix of fees for assets under management plus a fee for performance above an agreed benchmark though. This structure is typically used for portfolio managers who have a limited track record.

Another significant benefit of a having a managed account is the amount of time saved from the burden of reporting requirements. A constant stream of corporate actions from listed companies can test the most skilled investment professionals, let alone the DIY investor who works 10-12 hour days as a legal professional.

Private wealth groups that provide managed account services will typically match their service offering with a full-service backend and reporting system that keeps track of all corporate actions, cash flows, investment returns, and end of year tax obligations.

Adding to this reporting function is full transparency on each individual holding of securities for clients, whether they be individual shares, fixed income securities or managed funds. Transparency on the exact holdings of a managed fund can be very hard to get sometimes. Most fund managers identify their top 10 holdings in percentage terms but is rare to get full transparency on the composition of a specific fund that you may have invested in.

It is very common for legal professionals to have an existing portfolio of securities with a broker, fund, advisor, or wrap platform. They may be under the impression that this adds complexity to the transfer of holdings from one broker to the provider of a managed account service. In-specie transfers solve this problem and make the transition from one responsible entity to a provider of managed account services seamless. No tax obligations are incurred if you are transferring securities from one account to another as long as there is no change in beneficial ownership.

Other major benefits for clients of a managed account service include tax efficiencies like the avoidance of capital gains liabilities from the sale of stock by fund managers or brokers due to index tracking requirements—or general whims in the market. Clients can also have capital gains offset with capital losses to minimise their tax obligations.

The Heat is On

The word disruptive is use quite loosely among the financial media today but managed accounts are certainly a major, and possibly disruptive threat to the managed funds and financial advice industry.

Almost two thirds of Australia's large-cap funds fail to hit or exceed the benchmark for returns, according to recent research conducted by Morningstar[ii]. This has further intensified the pressure on managed funds to justify their management fees.

The figure for the performance of managed funds in the US are even worse with data from Morningstar showing only 9.5% of actively managed large-cap equity funds beating the S&P 500 Index over the five years to August 31—the worst five-year performance since 1999.

For the busy legal professional who wants to focus on being an advocate for their clients without the stress and headache of running their own investment portfolio then a managed account offers a very attractive solution to not only grow their financial wealth but preserve and secure their families future.

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[i] https://www.wealthwithin.com.au/investments/managed-accounts/

[ii] http://www.theage.com.au/business/markets/two-thirds-of-australian-large-cap-funds-fail-to-outperform-the-benchmark-20160919-grjafc