

Advisors consider separately managed accounts

Once an investment of the ultra-wealthy, SMAs are now available to clients with as little as \$100,000 of investible assets

FINANCIAL ADVISOR TONY De Thomas is betting his firm's future on separately managed accounts.

De Thomas, who owns **De Thomas Financial Corp.** in Thornhill, Ont., has signed up to become one of the first firms to distribute *Hahn Wealth Navigator*.

This is a separately managed account (SMA) program from **Hahn Investment Stewards & Co. Inc.** of Smithville, Ont., featuring a basket of exchange-traded funds tailored to meet clients' risk tolerance levels.

De Thomas says SMAs are growing in popularity. "Managed mutual funds worked well for 10 years. Now, the average consumer is not happy with mutual funds. [Manufacturers] oversold their product. They became marketing machines instead of thinking about the client. Expectations were higher than they should have been," he says of his decision to add SMAs to his roster of investments.

In Canada, about \$182.5 billion of assets are in managed accounts, vs \$383 billion in unitized funds, according to **Investor Economics Inc.** of Toronto. About \$44.6 billion of that is held in SMAs, with an annualized growth rate of 11%.

Wilfred Hahn, the brains behind *Wealth Navigator*, says SMAs were once the purview of the ultra-wealthy. However, thanks to technology and the rise of exchange-traded funds, he is able to deliver a product that advisors can use for clients with as little as \$100,000 in investible assets. The advisor has to commit to the turnkey operations, and agree to training an participating in regular seminars.

Hahn — who cut his teeth with Royal Bank of Canada, for which he headed the global investment group; Prudential Bache Securities, for which he was research director; and at investment bank Gordon Capital — says the managed account business is hitting its stride. He wants to capitalize on what he expects will be a shift away from mutual funds toward managed accounts and SMAs.

At one time a stock picker, he's become a convert to passive investment and ETFs: "The biggest investment performance isn't stock selection. The big decisions involve asset allocation." And that's where he puts his energies. He has what he calls "a regimented ETF selection process" that makes assessments based on 10 criteria. He then

■ BY JIM MIDDLEMISS

applies a top-down investment strategy according to sector and region.

Hahn offers nine portfolios. Including three RRSP portfolios, designed to meet the needs of everyone, from conservative to aggressive investors. Unlike other SMAs, **Hahn's** portfolios rely exclusively on ETFs. Until July, he says, it was not possible to use ETFs to develop a global investment model because of lack of European fixed-income.

That changed recently with the launch of a number of products that filled the gap, and this has allowed **Hahn** to take his product to market.

He says investors want to move away from unitized investments because of the tax consequences and high fees. He says 15 years ago a high net-worth individual needed at least \$5 million for discretionary management, which was expensive to deliver and support.

Improved technology, he says, allows him to deliver his service to advisors at a price lower than mutual fund fees. He says the typical "all in" cost of a mutual fund, including MER and transaction fees, is about 3%-4%, while he can deliver at less than 2.5%.

Chris Jackson, president and CEO of **IA Sciences Inc.**, a Toronto-based technology company that provides SMA services to investment firms, agrees the technology has made SMAs more affordable for clients and more profitable for sponsors. His firm does administration and reporting for SMAs for a sponsor, who is responsible for the search and selection of investment managers to pick the stocks and design the portfolios.

So far, IA Sciences has signed up a number of firms, including **Rockwater Capital Corp.** and **Richardson Partners Financial Ltd.** Sue Dabarno, Toronto-based COO of Richardson, says managed accounts will play a big role in the return of the Richardson family to the brokerage world: "Our strategy is to build a wealth-management business across Canada, operating out of eight centres with 150 advisors."

The focus will be on high networth clients, and advisors are expected to have more than \$100 million in assets under management.

Advisors will work with a client to develop an investment policy and a portfolio that meets

the client's needs, she says. The firm has partnered with **MoneyWare Ltd.** of Toronto, which will help develop the portfolios assist in the "academic side of it," while IA Sciences will provide the technology platform. She says in the past firms tried to develop their own platforms for running managed accounts, but now this can easily be outsourced: "IA Sciences makes it easier to get up and running."

David Burnes also sees opportunities with SMAs. He's the Toronto-based COO of **NBCN**, a subsidiary of **National Bank Financial Inc.** that provides clearing and administrative services to independent firms and the securities arm of National Bank of Canada. "Mutual funds, to a certain extent, have run their course and were disappointing to clients in the last bear. People are looking at alternatives," he says.

SMAs are one of those alternatives because of the flexibility they provide. The client owns the underlying security and avoids some tax issues mutual fund investors face when they buy into a fund that has already appreciated and then are dinged with capital gains.

His firm provides the technology for National's Ambassador Portfolio Service, a wrap account program. Correspondent firms can white-label their own products. "It's very successful and is keeping us busy," he says. Managed accounts have a "phenomenal growth rate on the curvy end of the hockey stick. The interest from our clients is incredible," he adds. NBCN has 59 IDA-member firms and 30 investment counselors in its correspondent network, so there's room for growth.

De Thomas says, as an independent, he can now compete with bank-owned firms and their wrap accounts and discretionary money-management services. He likes the transparency of SMAs. He knows exactly where the client is invested, unlike with mutual funds.

He does have concerns: "ETFs are fairly new and everyone thinks they're the answer." He's worried ETFs will become the next "nifty 50", the basket of stocks touted a couple of decades ago that eventually fell out of favour. SMAs, he says, are the latest solution for investors but, when it comes to basic market principles, little has changed — whether it's a mutual fund, an ETF or a stock: "No one panics when the market is going up. Everyone panics when it's going down."