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Are Individually Managed Accounts right for you?

Initially, many people who entered the world of equity (stock) investing in the mid-1990's, mostly by choosing and buying stocks themselves or by buying shares in stock mutual funds, profited handsomely by the decision to buy stocks. The long, strong bull market of the 1990s produced historically high returns for most types of stocks, and attracted literally billions of dollars into the stock market. It was, indeed, a real challenge for the reasonably diversified investor to lose money in those years.

The new decade however, has introduced these investors to the unpleasant reality of extreme market volatility. Many portfolios that grew and compounded at double-digit rates for years have lost big percentages of their value.

As a result, even investors with long-term investment goals – who know that the only way to lock in a loss is to sell when the prices of their stocks or the net asset values of their mutual funds are down – are beginning to explore alternative ways to participate in the stock market.

The following paragraphs will describe a third route to stock investing that is gaining increasing attention from affluent investors and their advisors. It's called an Individually Managed Account (IMA).

WHAT IS AN IMA?

An IMA is a portfolio of investments, in which the investor has direct ownership of each equity (stock) or bond in the portfolio, but delegates authority to make decisions about which securities to buy or sell to a professional money manager. An IMA, therefore, combines the beneficial features of investing directly in the stock market and investing through mutual funds, because the investor owns the stocks directly, but the expertise and research resources of a professional money manager are applied to the investment process and stock selection.

Individual ownership of stocks

Because you own the stocks directly, you can see exactly what companies you own and how many shares of each company. You and your Investment Advisor can also monitor your overall diversification, minimizing the chance of inadvertently over- or under-diversifying your portfolio away from the appropriate level of risk for your investment strategy.

Customization

There are many different 'styles' of stock investing – some conservative, some moderate and some aggressive. In consultation with an Investment Advisor, you select the money manager(s) who manages assets in the style appropriate for you. For example, a money manager who manages portfolios in the Large-Capitalization Value style will not buy new issues of companies with small market capitalization.

In an IMA, you can further customize your portfolio, directing the money manager to seek out or avoid certain stocks or industries that meet or violate your personal standards.

TAX MINIMIZATION

Taxes have a significant impact on the total return of a portfolio. IMAs can enhance after-tax returns in several ways.

No imbedded unrealized capital gains. Some mutual funds carry substantial unrealized capital gains. When you invest in this type of mutual fund, you are assuming a capital gain from which you never received any economic benefit. However, you must accept the tax liability that goes with it. With IMAs, because the cost basis is established when the securities are purchased in your name, you never assume any capital gains you did not receive the economic benefit of.

Control over taxable events. Mutual fund managers are required to distribute virtually all dividends, interest and realized capital gains in the year these are realized, and to carry net-losses forward to offset future gains. This means you cannot manage the distribution of gains or losses to fit your personal financial situation in any given tax year. With IMAs on the other hand, managers can be instructed to realize or postpone gains or losses at your instruction.

CONCLUSION

As you consider your investment options, you may believe that an IMA is a good choice for some or all of your investable assets, but wonder whether your portfolio is large enough to qualify for this type of investment. As little as thirty years ago, Individually Managed Accounts were the prerogative of the extremely wealthy. Families with names like Rockefeller, Vanderbilt and Pitcairn in the U.S. founded banks and trust companies to manage the family assets. Institutional investors, like endowment funds, pension plans and foundations, hired professional money managers who required multi-million dollar investment minimums before they would undertake management of the account. But all that has changed.

Today, because of innovative programs developed by forward-thinking investment advisory firms that have harnessed the power of information management technology, this flexible, efficient, customized method of investing is available at minimum investment levels as low as $100,000 per account, and at costs that are highly competitive with other investment alternatives.

Perhaps more than ever, many investors who have “paid the tuition” of equity investing over the past 10 years, need the consultative advice which uses Individually Managed Accounts as a solution.

If you are one of these investors, we can help you evaluate the benefits of such a choice for you.