

UNIFIED MANAGED ACCOUNTS

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In the managed money business, the unified managed account (UMA) is the next logical step in the evolution of the separate account. It is an integrated money management vehicle providing comprehensive investment management in a single account. This one account addresses all of an investor's financial planning needs. Unfortunately, few firms are able to truly accomplish this task. Many are trying however the costs to the firm to accomplish this are quite high and unfortunately if your firm does not have the financial resources to execute this then you are out of luck.

The Ideal UMA

The utopian vision of a true UMA is a single account, with a single registration (one set of paperwork), that can encompass every investment vehicle in an investor's portfolio, including stocks, bonds, mutual funds, separate accounts, exchange-traded funds (ETFs), hedge funds and more. This account offers both pre-selected asset allocation models and client-specific customized allocations. Tax-loss harvesting can be coordinated across the holdings to keep tax liabilities at a minimum also. Systematic rebalancing maintains the preferred asset allocation, and the financial advisor's fee-based compensation is product neutral, regardless of what is held in the account. So there is never a question about why your advisor chooses an investment solution that perhaps in the past compensated those more to possibly affect their decision to use it.

Why the Quest for a UMA?

Today, advisors provide all of the services and investments that a UMA will offer - they just don't provide them in a single account. So, why pursue the creation of a UMA? Convenience is one of the biggest factors. A UMA offers ease of administration for the investor and the advisor. Each client will require one set of paperwork, and all holdings will be summed up in a single performance report. Portfolio management decisions will be easy to coordinate, and the account's asset allocation will be easily identified and monitored.

Customization is another major factor. The ideal UMA structure provides the ability to incorporate all of a client's assets into a customized asset allocation to create a diversified, tax-efficient account that offers systematic rebalancing. It also allows the advisor to capture every cent of an investor's assets. This, of course, leads to the final evolution of the separately managed account: a single account that captures all of the assets in an entire household.

State of the Industry

High minimum investment requirements also make the current so-called UMAs unattainable for many investors. Some investment companies that do offer these accounts offer them only to investors willing to invest a large sum of money (as much as \$250,000 to \$500,000 as a minimum). This does not allow the average investor to access the benefits of these accounts. However, like many other higher end investment products - such as separately managed accounts, which spawned multi-discipline accounts - if UMAs become more and more popular, we can expect that either a hybrid product will be created or the minimum investment requirement will decrease. Technology presents a challenge too. Combining multiple investments and coordinating trades across all of them may create an operational nightmare. Add performance reporting into the mix and you have a truly monumental hurdle to overcome.

Conclusion

It may seem like the UMA is a product whose time may never come, but you need to keep in mind that this is a product in its infancy. Like separate accounts, mutual funds, ETFs, and every other investment product ever developed, if there's a ready market for the value this tool can provide, the financial services industry will work tirelessly to develop it and bring it to market. While some of the industry isn't quite there yet, some are. So I would ask that question to your advisor as to the availability of a true UMA type of account for you.

Finally, I would recommend that you check my website in order to see other prior articles and newsletters (www.frankzanatta.ca).



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