



A Guide to Separately Managed Accounts (SMAs)

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Executive Summary

If you're an investor who's moved beyond the basics and is looking for more control, customization, and tax efficiency in your portfolio, you may have heard about Separately Managed Accounts, or SMAs. Once reserved for the ultra-wealthy, SMAs are now increasingly accessible, thanks to technology and evolving investment platforms. But what exactly are they? How do they compare to mutual funds, ETFs, and Unified Managed Accounts (UMAs)? And, crucially, are the fees worth it? Let's take a deep dive.

What Is an SMA?

A Separately Managed Account is a professionally managed investment portfolio, tailored to your unique goals, values, and tax situation. Unlike mutual funds or ETFs, which pool assets from many investors, an SMA is yours alone: you directly own each stock, bond, or other security in the account. A professional asset manager makes day-to-day investment decisions on your behalf, but you (often in partnership with your advisor) set the guidelines, restrictions, and objectives¹⁰.

Why Do Investors Use SMAs?

Customization and Control:

With an SMA, you can tailor your portfolio to exclude certain stocks (say, avoiding fossil fuels or tobacco), overweight others, or even mirror an index but with tweaks that reflect your unique situation. For example, if you already have a large holding in your employer's stock, you can instruct your SMA manager to avoid buying more of it, thus reducing concentration risk⁷.

Tax Efficiency:

Because you own individual securities, your manager can harvest tax losses on specific holdings, offsetting gains and minimizing your annual tax bill. You also avoid “embedded capital gains”—a common headache for mutual fund investors who can be hit with taxable distributions even if they just bought into the fund^{12 14}.

Transparency:

You can see every holding in real time, not just a quarterly or annual summary. This level of transparency fosters trust and understanding, and allows for more precise oversight of your investments⁶.

Professional Management:

You get access to institutional-grade managers and research teams, which can be especially valuable for complex strategies or asset classes you’re less familiar with¹¹.

Who Typically Uses SMAs?

Historically, SMAs were the domain of high-net-worth individuals, with minimums often starting at \$250,000 or more. Today, some platforms offer entry points as low as \$25,000, but most still require at least \$50,000–\$100,000 to get started^{2 12}. The sweet spot is for investors with sizable taxable accounts who want a more bespoke approach than a mutual fund can offer.

What Are the Fees?

SMAs are not cheap compared to index funds or ETFs, but their costs are coming down. Here’s what you can expect:

- **SMA Management Fees:**

For equity SMAs, the median annual fee is about 0.34%; for fixed-income SMAs, about 0.24%^{12 15}. However, when you include the advisor’s fee (often 1% or more), the all-in cost typically ranges from 0.5% to 2% per year, with the average total fee around 1.44% (including both asset management and advisor fees)^{2 4}. Larger accounts may see lower percentages due to tiered pricing.

- **Mutual Funds & ETFs:**

The average actively managed mutual fund charges about 0.52%–1.01% per year, while ETFs average just 0.48%^{2 12}. Index funds and many ETFs are even cheaper, often below 0.10% per year.

- **Wrap Fees:**

Some SMA programs bundle management, advisory, trading, and custodial fees into a single “wrap fee,” making costs more transparent but sometimes less negotiable¹⁵.

Advantages of SMAs

- **Personalization:**

Your portfolio is built around you: your goals, your values, your tax situation. This is a level of customization pooled vehicles simply can’t match^{1 6 7}.

- **Tax Management:**

SMAs allow for active tax-loss harvesting and gain deferral, which can add significant after-tax value—especially for high-income investors or those with complex tax situations^{1 6 12}.

- **Transparency & Direct Ownership:**

You see exactly what you own and can transfer securities “in-kind” if you change managers, avoiding forced sales and unnecessary taxes⁶.

- **Professional Oversight:**

You benefit from the expertise of seasoned managers, rigorous research, and ongoing monitoring⁸.

- **Values-Based Investing:**

SMAs make it easy to implement ESG screens or avoid certain industries, aligning your investments with your ethical or religious beliefs¹³.

Drawbacks of SMAs

- **Higher Minimums:**

Most SMAs require at least \$50,000–\$100,000 to open an account, and some strategies may require much more¹².

- **Higher Fees (for Smaller Accounts):**
While fees are declining, they remain higher than most index funds and ETFs, and can eat into returns for smaller portfolios^{2 4 15}.
- **Potential for Less Diversification:**
Some SMAs, especially those focused on niche strategies or single asset classes, may not achieve the broad diversification of a mutual fund or ETF².
- **Operational Complexity:**
SMAs require more oversight and communication. Misalignment between you, your advisor, and your manager can have direct consequences⁶.
- **Regulatory Oversight:**
Mutual funds and ETFs are subject to strict regulatory scrutiny and independent boards, while SMAs rely more on the integrity and transparency of the manager¹².

How Do SMAs Compare to UMAs and Other Options?

A Unified Managed Account (UMA) is essentially a “wrapper” that can hold multiple SMAs, mutual funds, ETFs, and other assets under one roof. UMAs streamline reporting, rebalancing, and tax management across all your investments, making them a popular option for investors with complex portfolios⁵.

- **SMAs** offer maximum customization for a single asset class or strategy.
- **UMAs** provide a unified experience across multiple strategies and managers, with integrated tax and risk management.
- **Mutual Funds/ETFs** are best for simplicity, low cost, and broad diversification, but offer little customization.

Are SMA Fees Worth It?

This is the million-dollar question. If you have a large, taxable portfolio, complex needs, and value tax management and customization, the extra cost of an SMA can be justified—especially if your advisor and manager are proactive about tax-loss harvesting and portfolio construction^{1 5 6}. Studies have shown that the after-tax benefits of SMAs can add 0.5% or

more in annual net returns compared to mutual funds, especially for high-income investors⁵.

However, for smaller portfolios, or for investors who are comfortable with broad-market exposure and don't need customization, low-cost index funds and ETFs remain hard to beat.

Points to Remember

- **SMA**s offer direct ownership, customization, and tax efficiency, but come with higher minimums and fees.
- **Fees** typically range from 0.5% to 2% per year, with averages around 1.44% (including advisor fees), but can be lower for large accounts.
- **Tax management** and values-based investing are key advantages.
- **UMAs** can provide a “best of both worlds” approach for complex portfolios.
- **For most investors**, SMA's make sense if you have significant assets, a taxable account, and a need for customization. Otherwise, mutual funds and ETFs may be more cost-effective.

Final Thoughts

Separately Managed Accounts are not for everyone, but for the right investor, they can be a powerful tool. If you're considering an SMA, work closely with a trusted advisor who understands your goals, your tax situation, and your appetite for complexity. The right partnership can help you unlock the benefits of professional management, while keeping costs and risks in check.

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