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Five Ways SMAs Help You Attract and Serve HNW Investors

Grow Your Business with Separately Managed Accounts



Growth is the primary goal of any business. But in today's industry, consistent growth is becoming increasingly difficult for advisors and their firms. Financial advisors face a number of unique roadblocks, including:



Limited Time

Advisors are stretched thin, and the amount of time they can dedicate to generating new business is minimal.



Fee Compression

The commoditization of financial advice has directly resulted in financial services being offered for far less than the typical 1% fee.



Increased Regulatory Scrutiny

Both investors and the SEC/FINRA are taking advisors to task, continually demanding greater transparency.

One way to solve for these challenges while encouraging growth is to attract — or retain — high net worth (HNW) investors. The draw of HNW investors is powerful: who doesn't want to manage more assets through fewer accounts?

But HNW investors come with their own challenges. They're opportunity oriented versus risk averse¹, they have high expectations of their advisors⁵, especially when it comes to service, and, because they consider themselves knowledgeable about finance, they want to be directly involved in their investments¹.

So how do you deliver the kind of service, performance, and transparency that HNW investors demand?

Separately managed accounts empower financial advisors to differentiate their offerings and provide HNW clients with custom portfolio solutions to meet their specific needs, including tax sensitivities, investment transparency, control, and flexibility.

¹ U.S. Trust Insights on Wealth and Worth, 2017

What is a Separately Managed Account?

SMAs, or separate accounts, are investment accounts highly tailored to the individual investor, giving them the ability to own individual stocks and bonds in conjunction with other investment vehicles — which are uniquely positioned to meet the investor's specific needs².

An SMA typically involves three parties: investor, advisor, and third-party money manager(s). Investors often have direct access to the third-party money manager – facilitated by their advisor – to deliver increased transparency and control in the investment process.

What are the Benefits of Using Separately Managed Accounts?

SMAs can be great investment vehicles for HNW investors because they are designed specifically for them. Five benefits of using an SMA program to serve HNW investors are:

1 Increased Investment Flexibility

HNW investors tend to be more opportunity driven than risk averse. Consider this: many HNW investors maintain more than 10% cash, but for reasons other than capital preservation: more than half of HNW investors list an active search for opportunity as their leading reason for holding cash³.

An SMA gives investors the ability to buy and hold assets individually – such as stocks, bonds, and other non-traditional investments. SMAs also allow investors to integrate legacy holdings into their portfolio, which can be an important capability for the HNW audience.

2 Enhanced Tax Management

As net worth increases, so does the focus on and implication of taxes within a portfolio. More than 81% of HNW investors consider tax and legal advice a valuable advisor service (preceded only by investment management and financial planning (87%)⁴.

Along with active tax management strategies, SMAs will often include tax efficient investment vehicles, such as ETFs, to reduce capital gains taxes.

3 Portfolio Transparency

Forty-seven percent of HNW investors under 30 indicate low overall trust in financial advisors⁵. While a greater percentage of HNW investors fall into the over-30 age group, mistrust among younger investors highlights a growing challenge that should be addressed proactively.

Because SMAs provide direct investor-strategist relationships, they offer increased clarity into each investment decision, which helps build trust.

² Investopedia

³ U.S. Trust Insights on Wealth and Worth, 2017

⁴ World Wealth Report, 2017

⁵ United States Wealth Report, 2015

4 Financial Control

HNW investors demonstrate considerable confidence in their financial aptitudes. In fact, up to 90% of HNW investors cite smart investing as a factor of wealth creation. Conversely, only 43% recognize decisions made for them by a financial advisor as a factor⁶.

An SMA has the potential to provide a greater feeling of involvement and control for the HNW investors.

5 Advisor Flexibility

One of the greatest challenges of serving HNW investors is meeting their diverse financial needs and high expectations. Eighty-five percent of under-40 and 77% of 40 and over HNW investors indicate that they would readily leave a current relationship if their needs weren't being met⁵.

An SMA reduces your direct involvement in the day-to-day investment management process, which is a good thing. An advisor's core value isn't found in investment management. It's found in the ability to solve a client's broader financial challenges. An SMA gives you the time needed to focus on creating a positive and comprehensive client experience.

At Orion Portfolio Solutions, we empower advisors to offer the customization clients expect through one, comprehensive investment platform. Ready to see how our Separately Managed Account program can enhance your high-net-worth client relationships, and help further grow your business? Contact us to learn more about how you can implement SMAs in your own practice.

⁶ Spectrem Group, "financial behaviors and the investor's mindset", 2015



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