

Asset Management III

Week 3

This Online Course

10 Weeks

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Today's Objectives

- Portfolio Management, Types of Assets, Asset Allocation, Diversification, Performance.
- Portfolio Law and Taxation
- Investment Management Law

Books

- **Books in the Course Materials Section**

- I. Wealth Management Guide (Mentz)

Pg. 25-29 Investment Products

Pg. 24 Diversification

Topic for Discussion - Investing

What would you invest in?

- Stocks
- ETFs
- Mutual Funds
- Bond Funds
- CDs

Economics

Economics and Asset Management

- What should you be investing in now?
- Stocks
- Gold
- Real Estate?
- Do you need cash?
- Taxes?
- Certainty
- Global investing

Tax – Sell, Hold, Defer

- Buy and Hold – Long Term
- Sell after meeting target prices
- Worry about Taxes or Not?
- Defer? Inside an annuity, IRA, or 401K – This is not a big issue as annual taxes are not a key problem

Portfolio Tax Issues

- Tax on Short Term Gains
- Tax on Long Term Gains
- Dividends
- Interest on cash
- Fees and Commissions – Expenses
- Expenses for Advice
- Expense for research, books, magazines.
- Bond income – Tax or No Tax
- DeMutualized Company

Fees

- Not a big deal unless performance is bad.
- Inflation plus fees can help lose money.
- I have seen mutual funds with 3 percent fees.
- Inside/internal Fees are another story.

<http://www.sec.gov/investor/tools/mfcc/mfcc-int.htm>

Asset Management Fees

- An investment manager generally charges from 1 to 2 percent to manage your money.
- Usually they will set up a portfolio for you, manage it, and buy/sell as necessary i.e. Discretionary.
- A regular brokerage account – Nothing can be done without your permission.
- Sometimes both wife and husband must be contacted before any action can be taken.

Asset Management

Barclays Example:

- Proactive, tailored service
- Ongoing contact with your investment management team
- Regular valuations and performance updates
- As much control over your investments as you want
- All the advantages of a well-diversified portfolio
- <http://www.barclayswealth.com/private-banking/products-services/investment-management.htm>

What services are integrated?

- International
- Trusts and Estates
- Financial Planning
- Custodial Services
- Retirement services for you, business or other.
- Various Investment Products Ex.

<http://www.barclayswealth.com/private-banking/products-services/investment-products.htm>

Where do Lawyers and CPAs fit in.

- When I worked for LMWW, Inc, there was a broad cross section of lawyers, CPAs, financial planners and other licensed investment advisors working in the areas of:
 1. Asset Management
 2. Wealth Management
 3. Portfolio Management
 4. Investment Management
 5. And even in Insurance.

Where is the MONEY?

- Paid Salary
- Benefits
- Bonuses
- 401K and match
- Stock Options?
- Open your own firm and manage money for fee.
- Hedge fund? Go for the Carry.

Where is the security?

- Government, IRS, Treasury, Gift and Estates etc.
- Banks – The Trust Department – Quiet and Safe.
- Boutique investment firm that already has 200 million plus under management.
- Admin or Manager position
- General Counsel
- Compliance Professional

The Client

- Each Client is different
- Married clients have various issues
- Some will have parents or GrandParents with Assets.
- Some will have NO investible assets i.e. Cash or Stock to reinvest.
- Each client has issues of: retirement, estates, taxes, investing, and insurance

Where do you start

- Depends where you are in your job.
- Odds are you will be selling or promoting something.
- Wealth and Asset Management are generally in the business of one-stop shop cross selling of products that best fit the client.
- If you work in one department, i.e. investments at the bank, your company may force you to cooperate with other departments with your clients

Individuals and Families

Working with individuals and families is like being a Physician

You:

1. Gather Information
2. Diagnose
3. Prepare Plans
4. Present
5. Implement
6. Continuously Improve and Review.

Laws

- Privacy Laws
- Laws about Communication
- Laws about accurate skill and services
- Laws about Risk Analysis
- Laws about Tolerance
- Laws about Suitability
- Laws about descretion.
- Laws about promoting products and services.
- Other Compliance rules that apply to you. i.e. Conflicts

Other Rules

- Fiduciary Duty
- Duty of Care
- Diligence
- Advertising rules
- FINRA RULES
- SEC RULES
- CPA Rules
- Attorney Rules

Today's News and SEC

- Merrill Lynch
- People traded on information that was material
- Trading Desk Information
- Market Maker Information
- Shadow or Front Run
- 2003-2005

- All Illegal – As an accountant or lawyer, you may be privy to information, data, revenue, mergers etc.

Retirement?

- Social Security
- Pensions
- Plans
- Benefits and Insurance
- Company Plans
- Government
- Concentrated Stock

Insurance

- Do you have enough
- Beneficiaries
- Secondary
- Contingent
- Percentages

Trusts

- Fund Living Trusts?
- Irrevocable
- Insurance Trusts and Crummy
- 529 Acts like a trust
- Testamentary Trust

Accounts?

- Online
 - Broker
 - Banker
 - Insurance Rep
 - Wrap
-
- Should you consolidate?
 - How much cash do you want to keep in any one place?

Common Sense

- Have a Will
- Powers of Attorney
- Health Care?
- Financial?
- Living Will or Advanced Health Care Directive
<http://www.mayoclinic.com/health/living-wills/HA00014>
- TOD and POD Pay on Death: avoid probate
<http://www.kiplinger.com/features/archives/2003/04/POD-TOD.html>
- Health Insurance or Catastrophic Policy?

State Income Tax

- The IRS isn't the only one who wants a piece of your paycheck - 41 states have a broad-based individual income tax. Only seven states lack an income tax altogether. They are:
- Alaska
- Florida
- Nevada
- South Dakota
- Texas
- Washington
- Wyoming

Community Property

- **Overview** - Special rules apply to spousal property and income in the *community property* states:
- Arizona
- California
- Idaho
- Louisiana
- Nevada
- New Mexico
- Texas
- Washington
- Wisconsin

Outsourced management

- Many Big firms have an Asset Management or Investment Management Department:
- They can pair you up with investment managers that have been screened etc.
- These are outside managers.
- The Big firm still keeps the admin fee. .25 percent or more.
- The Outside manager gets 75 to 150 pts.

Managed Money types

- *Traditional Managed- or Separate-Account Programs*

Unlike [mutual funds](#), where many investors pool their assets to access the services of a professional money manager, traditional managed-account programs (also known as “separate accounts”) allow investors to contract the services of a professional money manager for an account that is separate and distinct from the accounts of other investors. These services include significant tax management and portfolio customization. Investment decisions are based on the investor's individual needs, not on the generic needs of a portfolio designed to represent a pool of investors that may number well into the thousands.

Mutual-Fund Advisory Programs

The term "[mutual fund](#) wrap" has largely been replaced by "mutual fund advisory program" to describe a portfolio of mutual funds selected to match a preset asset allocation model appropriate for an investor's goals, offered in a single investment account together with the services of a professional investment advisor. The account is automatically rebalanced to maintain the asset allocation model, and provides consolidated performance reporting regardless of the number of mutual funds in the model. A variety of asset allocation models are available with equity-to-fixed-income proportions, such as 100% equity, 80/20, 60/40, 50/50, 40/60, 20/80 or 100% fixed income. A professional financial advisor works with the investor to determine which asset allocation model is appropriate for the investor's goals, risk tolerance, time horizon, etc., and provides ongoing guidance in the pursuit of the investor's financial objectives.

Fee-based Brokerage Accounts

- *Fee-based Brokerage Accounts*

Unlimited trading with no commission fees makes the fee-based [brokerage account](#) an attractive tool for frequent traders. The fee includes ongoing guidance of a professional financial advisor, and provides a measure of comfort for the do-it-yourselfer who prefers a bit of expert assistance.

Multi-Discipline Accounts

Multi-discipline accounts combine the services of multiple separate account managers into a single portfolio. This portfolio offers all the benefits of a traditional managed-account portfolio - and more - at reduced investment minimums. Activities across each of the different managers of the portfolio are coordinated by an overlay manager to maintain compliance with the [wash-sale rule](#) and minimize capital gains tax liabilities.

ETF Wraps

ETF wraps are one of the latest entrants to the managed-money arena and are similar to mutual fund wraps but use [exchange-traded funds](#) instead of mutual funds as their investment vehicles. Since ETFs have lower expense ratios than mutual funds, ETF wraps have a strong appeal to cost-conscious investors.

Other Presentations

- In the assignments area are 2 other presentations:
- CAM/Asset/Wealth Manager Issues
- Investment Gurus and Books

- Also, there is a sample paper by Dr. Phillips.

Discussions

- Thanks to everyone who made posts to the discussion on economics, diversification, industry sectors, and cycles.
- We have a new discussion posted there for this week. Read this article on Portfolio Management:
http://www.investopedia.com/articles/financialcareers/07/portfolio_management.asp

End of Class

- Thanks for being here, and see you next Wednesday.

Kindest Regards, George Mentz, JD, MBA, CWM, QFP

References

- **Investopedia & IRS**
- <http://www.investopedia.com/terms/a/assetmanagement.asp>
- <http://www.irs.gov/businesses/small/article/0,,id=98277,00.html>
- History <http://www.llc-reporter.com/resource.htm>
- Sector Rotation <http://www.investopedia.com/articles/trading/05/020305.asp>
- Business Cycles and Investing - <http://www.investingdaily.com/id/17239/how-to-pick-industry-sectors-based-on-the-business-cycle.html>
- <http://www.insurance.com/health-insurance/coverage/pros-and-cons-of-catastrophic-health-insurance.aspx>
- <http://www.investopedia.com/exam-guide/series-7/rules-regulations/outside-business-activities.asp>
- http://www.investopedia.com/articles/financialcareers/07/portfolio_manager.asp
- <http://www.investopedia.com/articles/05/020105.asp> Managed Money