Strategist Driven Accounts

By Gary Case

A growing offering from mutual fund companies, brokerage firms, and financial planners is allocated, or strategist driven accounts. These accounts, according to some advertisements, offer exposure to "all asset classes." While that may be true in rare instances, most allocated accounts offer exposure to stocks, bonds, and cash. Asset classes such as commodities, real estate, precious metals, and hedging strategies occupy space in a very small segment of these accounts. Common names for strategist driven accounts include "managed," "allocation," "lifecycle" or "target date." In many cases, the strategist represents that the mix of assets with change over time to reflect movement from accumulating assets (growth) to generating income from the fund, generally at retirement. Other strategist driven accounts keep the same investment objective without changing from growth to income. Dynamically managed accounts claim that the strategist actively monitors many variables that can affect performance and adjusts assets in the account frequently to curb risks and provide opportunities for growth.

An advantage to using a strategist driven account is, remarkably, a strategy, management process, and discipline imposed by the strategist. In many accounts of this type, the strategist may employ thousands of market analysts and investment research personnel. By contrast, most financial advisors spend time in several activities; providing service to existing clients, prospecting for new clients, educating themselves about their profession, reviewing products and processes for their practice, etc. If your advisor represents to you that among his or her primary activities is portfolio structuring and management, a reasonable question might be how they are able to meet client relationship needs while performing portfolio management services. Mutual fund families offer asset allocation accounts by apportioning assets among the funds in the family. While this approach has advantages by including multiple asset classes in a single fund, it does not allow for a best-of-class approach to manager selection.

To gain the optimum benefits from a strategist driven account, consider a program that offers an open window to institutional class money managers, has a small minimum deposit ($10,000-$25,000), and a reasonable fee structure (1-2% annually). Strategist driven accounts are available for individual investors, in IRAs, 401k's and other qualified retirement plans, and even in variable annuities. Strategist driven accounts are relatively new to retail investors and layer additional complexity onto an already complex investment environment. However, the strength of a process driven, disciplined approach to investment management is attractive and should be considered as a viable investment tool.

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