INVESTMENTS

More Flexibility and Customization—Introducing the New UMA

By Rebecca McReynolds

The new Unified Managed Account Exchange fulfills the original promise of separately managed accounts

On paper, traditional Unified Managed Accounts (UMAs) look like the perfect solution for advisors trying to leverage technology to streamline their business. Wrapping a client's entire portfolio into one diversified account with one statement simplifies the process for clients. At the same time, letting an overlay manager oversee rebalancing and tax-efficient trading frees the advisor up to spend more time meeting with clients and prospects.

That simplification, though, comes at a high cost that many advisors still are not willing to pay, says Jeff Strange, Associate Director with Cerulli Associates in Boston. First, most UMAs can be too constrained in their investment product offerings, giving advisors too little control over portfolio construction, he says. With their focus on long-term investing, traditional UMAs also limit client liquidity. "During the market downturn, when a lot of clients wanted to go to cash quickly, UMAs didn't have that capability," he says. "Advisors need to be able to show clients they can make changes very rapidly in deteriorating market conditions, and most UMAs don't fit into that mold." That is, until now.

MEET THE NEW UNIFIED MANAGED ACCOUNT

The next generation of Unified Managed Accounts is here. Designed to help advisors build customized portfolios and improve client service, TD AMERITRADE Institutional's new Unified Managed Account Exchange lets advisors choose between an open architecture solution in which they can build their own portfolios from the thousands of investment vehicles now available, or leverage research from an industry-leading investment consultant using preset portfolio models. Additionally, they can take advantage of enhanced liquidity to manage client needs, even during retirement.

"A lot of advisors loved the concept of the UMA, but felt constrained by the offerings from our research provider," says Scott Egner, a Manager in TD AMERITRADE Institutional's Managed Account Services Group. "Now advisors who want to do their own due diligence and research in selecting investment managers have an entire universe of mutual funds, exchange-traded funds (ETFs), closed-end funds, separate account managers and third-party strategists at their fingertips."

The best parts of TD AMERITRADE Institutional's original UMA platform are still in place, offering a strategic relationship with Capital Market Consultants to provide advisors with comprehensive research and ongoing due diligence to help identify appropriate money managers for specific investment strategies. From there, Capital Market Consultants creates a wide range of portfolio models for a comprehensive solution that fits a variety of investor needs.

In addition to allowing advisors to work directly from the researched list of managers and pre-set portfolios, advisors can create their own portfolios by selecting from the thousands of choices that are now available, including alternative asset classes not covered by the research provider. If an advisor wants to use a separate account manager that isn't currently on the list, TD AMERITRADE Institutional will work with that advisor to bring the separately managed account (SMA) onto the platform. "One of the critical components of this newly expanded platform is that portfolio construction remains the domain of the advisor," Egner says.

The open architecture also means that when a new client is signed, the advisor won't have to sell out of the existing positions to transition the client to the UMA platform. Instead, the advisor can move those assets directly onto the exchange and then modify the portfolio over time. "We talked to a lot of advisors who still run independent investment strategies for their clients," Egner says. "So we adapted the program to reflect how advisors run their businesses."

LIQUIDITY WHEN YOU NEED IT

The new TD AMERITRADE Institutional Unified Managed Account Exchange even simplifies the process of moving assets into cash when clients get nervous. That strategy is not always advisable given most standards of modern portfolio theory, but the reality is that advisors still need to help their clients remain comfortable with their investment choices. "It used to be that when a client wanted to go to cash, advisors had to pull it from all of the different managers," Egner says. The Unified Managed Account Exchange platform lets advisors reallocate with one order. This increased flexibility also means advisors can even use the new platform for both the accumulation and distribution of assets as their clients move into and through retirement.

No matter how advisors construct each portfolio, it still will be managed on the UMA platform, which means it will all be held in one account. More importantly, Placemark Investments, a leading overlay portfolio manager in the separate account industry, will handle all of the back-office details, including coordinating trading activity of all managers and securities in each client's portfolio to ensure objectives are met. It will also monitor the investment managers to ensure overall allocations to individual holdings do not exceed predetermined limits.

Best of all, the fee structure is based only on the services and investments selected. For example, in the new program there will be no research fee unless advisors use a manager selected by the research provider. All overlay fees will be separated based on the types of investments selected, which means the overlay fee for using an SMA may be 20 basis points, but only 10 basis points for mutual funds. "Our Unified Managed Account Exchange solution fulfills the original promise of separately managed accounts," says Egner.

Unified Managed Account Exchange Key Benefits for Advisors

- One-stop access to a wide range of open architecture investment solutions.
- The ability to manage more of a client's portfolio requirements in one account.
- The freedom to outsource some or all due diligence for investment products.
- Enhanced liquidity to manage client needs, even during retirement.
- Flexibility—TD AMERITRADE Institutional works with advisors to recruit managers not yet on the platform.