Millionaires' account service moves into the broader market

INDIVIDUALLY managed accounts grew up as a service to the rich, for professional management of share portfolios tailored to their needs.

Stockbrokers, Macquarie Bank, and boutiques such as Caledonia Investments helped the sensible millionaires keep their money growing and limited their tax payable.

So, with strong sharemarkets, there's no shortage of customers for the IMA offered by Peters MacGregor Capital Management, based in Sydney's Double Bay.

Set up nine years ago, it invests here and overseas for clients with a minimum $2 million to invest.

They get a concentrated portfolio of up to 20 stocks including: a long-time profitable holding in New Zealand jeweller Michael Hill; retailer Harvey Norman; US-based tax agent H&R Block; and B shares in Warren Buffet's investment vehicle Berkshire Hathaway.

Returns have been good, averaging 23 per cent a year over five years for clients.

As with other IMAs, the customer owns shares in their own name, therefore gets a heads-up on capital gains and losses on those that will affect their tax position.

"We are bottom-up stockpickers and value investors, but much of the result is from North America where we have a full-time analyst," Peters MacGregor CEO James Craigie says.

An IMA would also offer investors regular notification of shares that have been bought and sold.

Due to their tax advantages, IMAs are slowly catching on, while technology has allowed the average account size to shrink.

With most investors parking their money in wrap accounts — retail supermarkets for managed funds — Craigie wonders how the current setup will respond to a challenge from IMAs. "Why pay to have your money sitting passively in a wrap account — when for the same charge it could be guarded by a investment professional, especially when markets fall?" he says.

James Craigie

BT's private portfolio service, which grew out of Westpac's service for top-end clients 30 years ago, now has $1.7 billion under management. It has a minimum $1 million subscription and has model share portfolios (shares chosen for growth, income or heavily traded portfolios) that portfolio advisers can customise. The third good year of strong returns has also seen Macquarie's IMA business do well and its funds under management have doubled to $800 million in the past year.

Macquarie, which tailors IMAs for its wealthy clients, is about to launch a "defeatured" IMA for investors with a minimum $100,000 to invest.

It too offers a range of model portfolios actively managed and administered by top investment managers.

All charges will be bundled into a single fee of about 2 per cent a year.

"That's about the same for investing in managed funds," according to Martin Crabb, director of Macquarie Private Portfolio Management. That is, it is almost the same once you add the annual fee for a wholesale managed fund to a platform (such as a wrap) fee. IMAs are an investment and a platform all in one. They are growing as a cottage industry, enabled by technology and built on relationships with private clients beneath the radar of the mainstream financial institutions, argues Stuart Holdsworth, Financial Simplicity (an IMA software network) managing director.

"The snag is that financial advisers, locked into the business models of large institutions, have been slow to take them up," he says.

Most managed accounts are discretionary but with limitations. The customer is saying: within limits, make the decision for me, I don't have the time or the expertise.

In some cases, the IMA provider will customise the portfolio for the client, but the more defeatured it is, the more likely that the investor ends up with the same model portfolio as everybody else. And, when the manager buys or sells a share, this will be replicated across all accounts.

Investors may or may not be able to opt out of a share in the model portfolio. It depends how discretionary it is.

Brokers can run IMAs, but their reward is on the number of stock transactions.

And, they have difficulties dealing individually with a large number of clients if they get a hot tip on BHP shares.

"With IMAs, you could have 10,000 clients and contact them all at the same time," Holdsworth says.

IMAs are the holy grail of personalised investment via technology.

Managing the demands of individual clients is less of a limitation.

Shaun Bond, a one-man band financial planner in North Queensland, is an illustration of how IMAs fit into a new economy model.

He has operated IMAs for five years for his 100 clients, mostly established farmers in Ayr (population 10,000) in sugar country an hour south of Townsville.

Based on a personalised relationship with these clients, he has developed a managed account share portfolio that operates like an IMA.

He is also the investment manager, using research from Aegis Equities and Comsec, before making the call on buying and selling shares in a focused portfolio of between 10 and 20 stocks.

He has managed returns after fees of 14 per cent per annum over five years, and charges a performance fee.

"My dissatisfaction with managed funds was partly their inability to cope with the increasing demand for absolute returns, in good markets and bad," he says.

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