



# **What the Wealthy Know About Money Management**

*Understanding the Tools Used to Grow and Protect Assets*

When it comes to managing wealth, high-net-worth individuals rarely go it alone. Just as top athletes rely on coaches and surgeons rely on specialists, affluent investors often delegate their portfolios to professionals who can bring structure, discipline, and strategy to their financial lives.

This guidebook is designed to give you a clear, educational overview of how professional money management works. Whether you're just beginning to grow your investments or are looking for more effective strategies, understanding the different tools available can help you make more informed choices.

### We'll explore:

- How pooled investment vehicles like mutual funds and ETFs work
- What separates customized accounts from traditional investments
- The pros and cons of each strategy
- Real data to help illustrate how fees, taxes, and personalization impact long-term results

This is not a pitch for any product, but a helpful resource to understand the mechanics behind how wealth is managed professionally.



Let's get started by looking at the most common type of investment vehicle: the mutual fund.

## The Basics of Pooled Investing

### Understanding Mutual Funds and Their Role in Today's Market

When investors first begin building wealth, mutual funds often seem like an obvious place to start. They offer built-in diversification, professional management, and relatively low minimums to begin investing. For many, it's a simple way to access a wide array of stocks, bonds, or other assets without needing to pick individual investments.

But mutual funds also come with trade-offs. While they're accessible and diversified, they can include hidden costs, tax inefficiencies, and limited control — all of which become more important as your portfolio grows.



### Why People Use Mutual Funds

**Low Minimums:** Many mutual funds allow investors to get started with \$500 to \$2,500.

- **Professional Management:** Funds are typically run by seasoned managers, many with advanced credentials like the Chartered Financial Analyst (CFA) designation.
- **Diversification:** A single mutual fund can include 30 to 500+ different holdings, which helps reduce single-company risk.
- **Liquidity:** You can usually buy or sell shares at the end of any trading day.

**Tip:** Diversification spreads risk but does not eliminate it. Even a diversified fund can lose value in a down market.

## What to Watch Out For

Even though mutual funds can be convenient, they come with built-in challenges that may affect long-term growth — especially for investors in taxable accounts.

- **Higher Fees:** Actively managed mutual funds still charge average annual expenses of 0.66% to 1.13%, and many include additional sales charges or marketing fees (Morningstar, 2023).
- **Tax Implications:** High turnover creates frequent taxable events, often passing capital gains to shareholders even if you didn't sell anything.
- **Lack of Control:** Investors can't prevent managers from buying or selling specific holdings — or using strategies like derivatives and leverage.
- **Limited Trading:** Mutual fund shares can only be traded at the end of the trading day, restricting intraday flexibility.
- **Commingled Ownership:** Your money is pooled with other investors, which means other people's decisions (like panic selling) can impact your returns.

**Supporting Data:** According to Morningstar's 2023 fund fee study, the average asset-weighted expense ratio for active mutual funds in the U.S. was 0.66% in 2022 — significantly higher than the 0.05% average for index-tracking ETFs (Morningstar, 2023).

**Citation:** Hale, J. (2023, July). Morningstar's Annual Fund Fee Study 2023. Morningstar. <https://www.morningstar.com/lp/annual-fund-fee-study>



## Indexing with Flexibility

### How Exchange-Traded Funds Combine Simplicity with Control

Exchange-Traded Funds, or ETFs, have become one of the fastest-growing investment tools in recent years. Designed to mirror the structure of mutual funds while offering the trading flexibility of stocks, ETFs appeal to a wide range of investors — from beginners to highly active traders.

With low costs, tax efficiency, and the ability to buy or sell throughout the trading day, ETFs often serve as a more nimble option compared to mutual funds. That said, they're still pooled investment vehicles, and like all tools, they're best used with the right expectations.



## Benefits of ETFs at a Glance

Intraday Trading: Buy and sell shares any time during market hours, just like a stock.

- **Lower Fees:** Most ETFs track an index, which keeps costs low due to passive management.
- **Tax Efficiency:** ETFs generally have low turnover, reducing capital gains passed on to investors.
- **Broad Diversification:** Many ETFs track major indices like the S&P 500 or the Nasdaq-100.

Options for All Strategies: From conservative dividend ETFs to niche sector or inverse funds, there's an ETF for almost every investing style.

**Tip:** While ETF shares are traded throughout the day, commissions or spreads may still apply depending on your brokerage platform.

## Considerations and Limitations

ETFs are flexible, but they're not completely personalized or free of potential drawbacks.

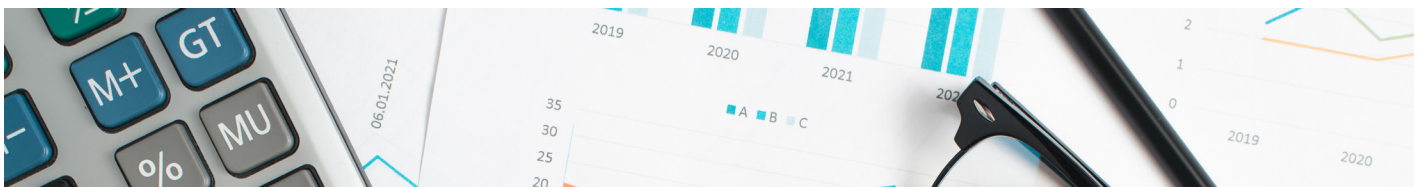
- **Commingled Ownership:** Like mutual funds, your money is pooled with other investors.
- **Commission Costs:** Some brokerages still charge per-trade fees for buying or selling ETF shares.
- **No Customization:** You can't exclude specific holdings or tailor the strategy to your personal tax situation
- **Volatility:** Some ETFs (especially leveraged or niche sector funds) can be more volatile than broad index funds.



This strategy ensures that retirees have liquid assets available for withdrawals without needing to sell volatile investments at a loss during market downturns.

**Supporting Data:** In 2023, ETFs in the U.S. saw inflows of \$597 billion, with index ETFs making up more than 95% of total ETF assets, showing strong investor preference for low-cost, passive strategies (ICI, 2024).

**Citation:** Investment Company Institute. (2024, March). ETF Assets and Net Issuance. <https://www.ici.org/statistical-reports/resources/etf-assets>



## A Personalized Portfolio Experience

### Separately Managed Accounts for Tax Control and Tailored Strategies

Unlike mutual funds and ETFs, Separately Managed Accounts (SMAs) offer a truly personalized approach to investing. These accounts give you direct ownership of individual securities, which allows for precise tax planning, custom investment strategies, and a higher level of transparency.

Originally designed for ultra-wealthy investors, SMAs have become more accessible in recent years. With minimums starting around \$100,000, they're increasingly used by individuals who want more control, customization, and clarity over how their money is managed.



## Key Benefits of Separately Managed Accounts

- **Direct Ownership:** You own individual stocks or bonds—not just a share of a pooled fund.
- **Custom Tax Planning:** Control when gains and losses are realized, allowing for tax-efficient strategies like tax-loss harvesting.
- **Personal Values Alignment:** Exclude companies or sectors you wish to avoid (e.g., tobacco, fossil fuels).
- **Multiple Managers:** Allocate across different strategies or goals, each with a dedicated specialist.
- **Transparent Reporting:** Quarterly performance updates and full fee disclosures.

**Tip:** SMAs can be built around your unique financial plan. For example, if you sell a property and realize a gain, your advisor can harvest losses in your SMA to offset that tax liability.



## Things to Consider

While SMAs provide more control, they also require more involvement and may come with higher account minimums.

- **Higher Entry Point:** Most SMAs require a minimum of \$100,000+ per account.
- **Wrap Fees:** Typically charge an all-in annual fee ranging from 1% to 3%, which covers investment management and administrative costs.
- **Manager-Dependent Discipline:** The success of your strategy hinges on the investment model and discipline of your chosen manager.
- **Watch for Overlap:** Some SMAs use mutual funds or ETFs within the account, which may create double layers of fees.

**Supporting Data:** As of 2023, over \$2.3 trillion in assets were held in separately managed accounts in the U.S., reflecting a growing interest in tax-focused, customized investing strategies among high-net-worth individuals (Cerulli Associates, 2023).

**Citation:** Cerulli Associates. (2023, August). U.S. SMA Market Surpasses \$2 Trillion in Assets. <https://www.cerulli.com/press-releases/437/cerulli-u-s-sm-a-market-surpasses-2-trillion-in-assets>



# Comparing Your Options

## How Mutual Funds, ETFs, and SMAs Stack Up

Each investment type serves a different purpose — and understanding the differences can help you choose the one that fits your goals, preferences, and stage of life. Here’s a clear comparison to help you evaluate the trade-offs.

### Quick Comparison Table

Feature	Mutual Funds	ETFs	SMAs (Separately Managed Accounts)
<b>Ownership</b>	Share in a pooled fund	Share in a pooled fund	Direct ownership of individual securities
<b>Trading Flexibility</b>	Only at end of trading day	Trades anytime during market hours	Trades executed on your behalf by portfolio manager
<b>Minimum Investment</b>	\$500 – \$2,500+	\$500 – \$2,000+	\$100,000+ typical minimum
<b>Fees</b>	0.66% – 1.13% avg + possible loads and 12b-1 fees	0.05% – 0.50% avg + possible trading commissions	1% – 3% “wrap” fee covering all management costs
<b>Tax Efficiency</b>	Low (due to turnover and embedded gains)	High (low turnover, long-term gains)	Very High (customized gain/loss harvesting)
<b>Customization</b>	None	Limited (themed ETFs available)	High (values-based investing and tax strategy)
<b>Transparency</b>	Moderate (fund reports)	High (daily holdings and pricing)	Very High (real-time access and reporting)
<b>Diversification</b>	High (30–500+ holdings)	High (index-based or thematic exposure)	Depends on manager’s strategy

**Tip:** Consider combining strategies. Many investors use ETFs for broad market exposure while using an SMA for tax-sensitive or values-based goals.

## Visual Highlight: Expense Ratio Comparison

Here's a quick look at average annual fees for different investment types:

Investment Type	Avg Annual Expense
Actively Managed Mutual Fund	0.66% – 1.13%
ETF (Index-Based)	0.05% – 0.50%
Separately Managed Account	1% – 3% (Wrap Fee)

(Source: Morningstar, 2023; Cerulli Associates, 2023)



## Final Thoughts on Choosing the Right Fit

### Aligning Your Investment Strategy With Your Financial Goals

There's no one-size-fits-all solution when it comes to managing wealth — and that's exactly the point. Each type of investment structure offers its own blend of cost, convenience, control, and customization. The best choice depends not only on your financial goals, but also on how involved you want to be in the process and how important factors like taxes and transparency are to you.

### Key Takeaways

- Mutual Funds are widely accessible and diversified, but come with less control and potentially higher fees and taxes.
- ETFs offer low-cost exposure and trading flexibility, making them ideal for efficient, hands-off investing.
- Separately Managed Accounts provide personalized attention, deeper tax control, and values-based investing — often preferred by those with complex or larger portfolios.

**Tip:** As your portfolio grows, so do your needs. What starts as a smart mutual fund strategy may later evolve into a mix of ETFs and an SMA as your financial picture becomes more sophisticated.



## Work With a Fiduciary You Trust

A fiduciary advisor is legally obligated to act in your best interest — not sell you products or chase commissions. Working with the right advisor can help you:

- Choose the investment structure (or combination) that fits your goals
- Optimize your tax strategy across all accounts
- Understand your fees and keep them in check
- Stay focused during market volatility
- Build a portfolio aligned with your personal values and timeline

No matter where you are in your journey, having a clear investment strategy — and the right team to help you implement it — is one of the most powerful steps you can take toward long-term financial success.

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