



Separately Managed Accounts: A More Personalized Approach to Investing

Investors today often seek more than just market exposure. They want flexibility, tax awareness, and alignment with their broader financial picture. Separately Managed Accounts, commonly known as SMAs, are one way to achieve this.

Introduction to SMAs

A Separately Managed Account is an investment portfolio made up of individual securities such as stocks or bonds that are managed on behalf of a single investor. Unlike mutual funds, where assets are pooled, SMAs hold securities directly in the investor's name [1].

This structure allows for a more tailored experience. At Sonoma Wealth Advisors, we have found that direct ownership can open the door to greater alignment between an investor's portfolio and their long-term objectives. As Chris Sipes, Managing Director at SWA, noted, "Direct ownership allows us to align investment decisions more closely with a client's tax situation and overall financial strategy."

How SMAs Differ from Mutual Funds

The primary distinction lies in ownership. Mutual fund investors own shares of the fund itself, while SMA investors own the underlying securities directly [2]. This creates several potential advantages.

Tax efficiency

This is often the most significant benefit. Managers may strategically realize losses to offset gains. This process, known as tax loss harvesting, may help reduce taxable income in a way that pooled vehicles cannot [3].

Customization

SMAs can be tailored to reflect sector preferences, concentration concerns, or values-based considerations [4]. Mutual funds typically do not offer this flexibility.

Transparency

Investors can review individual holdings at any time rather than relying on periodic disclosures [2].

Direct Ownership

Investors hold actual shares, which means they receive proxy voting rights and can engage as shareholders if they choose.

Who May Benefit

SWA's research suggests SMAs may be particularly useful for:

- Investors in higher tax brackets
- Individuals with concentrated stock positions
- Clients with specific values-based investment criteria
- Anyone seeking greater control over their portfolio's tax impact

Considerations

SMAs often require higher minimum investments and may carry higher management fees [5]. However, for many investors, the potential tax benefits and customization opportunities can justify the cost difference.

At Sonoma Wealth Advisors, we view SMAs as a tool that allows portfolios to reflect the individual and their unique preferences. The professional management, tax control, and customization benefits of SMAs may offer advantages not typically available in pooled investments and provide greater flexibility in certain circumstances.

For additional information, please visit: <https://www.sonomowealth.com>

References

- [1] Lord Abbett. [Separately Managed Accounts Overview](#).
- [2] Charles Schwab. [Mutual Funds vs Separately Managed Accounts](#).
- [3] IRS Publication 550. [Investment Income and Expenses](#).
- [4] Morningstar. [Customization in SMAs](#).
- [5] Cerulli Associates. [SMA Industry Report](#)



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