

## MUTUAL FUND OR MANAGED ACCOUNT: WHICH IS BEST?

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With more than 10,000 mutual funds available in the investment marketplace and even more money managers, it is difficult to decide which one is best for any individual investor. This article will provide information on the similarities and differences between the two in an effort to shed light on which is best for the investor.

**Mutual funds and managed accounts are alike in many ways.** They are both dynamic portfolios of securities; that is, the positions owned may change from day to day depending on market and economic factors. **They both have fee structures** which are based on a percentage of the portfolio values. When purchased, **they both require an investor to give control** of buying and selling decisions to another person in hopes of better performance **and they both have a security selection strategy** in place which guides the control person when making a buy or sell.

Mutual funds pool investors' money and, with some exceptions, can be bought or sold using either a stock broker or by dealing directly with the fund company. **Most managed accounts, however, MUST be purchased through a stock broker.** This is mainly because mutual funds are regulated by the SEC under the Investment Company Act of 1940 whereas private money managers are registered investment advisers and do not offer shares of pooled assets to the public but buy and sell stocks for individual investor accounts.

**Peter Lynch is a good example of a famous, successful fund manager.** For years, Mr. Lynch managed one of the most money-making mutual funds in the country: Fidelity's Magellan Fund. His expertise in stock selection is legend and many investors, large and small, wanted him to manage their money. All that was necessary was to open a Fidelity account, send in a check and buy shares of Fidelity Magellan. As long as Mr. Lynch managed this publicly traded fund, everyone who owned it received the benefit of his knowledge. Mr. Lynch was paid a management fee as stated in the prospectus and probably received an annual bonus based on how well the fund performed. In fact, when selecting a mutual fund, it is often a good idea to purchase a fund whose manager has been at the helm for an extended period of time.

**Private money managers, however, are just that: private.** Although often well known, they rarely reach the level of notoriety of the Peter Lynches of the world. They used to only be available to the very wealthy but technology has made it possible for even modest investors to avail themselves of a private manager's talent. They are referred to investors through the investor's stock broker. Although not as well known, they can often consistently outperform mutual fund managers.

The tax ramifications of owning a mutual fund are similar to having a privately managed account to the extent that gains and losses occur as stocks are bought and sold in the fund but the fund investor only receives an annual net figure of the total gains, dividends, etc. **The investor never knows which stocks were sold for a profit or**

**which for a loss.** In a mutual fund, **the exact make up of the portfolio is never disclosed to the investor.** In a managed account, however, an investor can, at any time, look at their account statement and see what stocks they own. At tax time, the reportable gains and losses will be reported for each closing stock transaction.

Mutual funds impose a percent sales charge when buying the fund which is either paid to the fund company all at once or can be collected from the investor by reducing fund performance in small increments over time; usually five years. Without getting too complex, it is safe to say that **mutual funds are usually less costly than managed accounts.** Privately managed accounts commonly use a wrap fee as their compensation arrangement. In this way, stocks are bought and sold without commission but an annual fee based on a percentage (usually 2-3%) of the account value is charged.

Finally, mutual funds have an investment objective for the fund. This investment objective, such as growth from large cap stocks, will determine what stocks are in the fund portfolio. Investors can read about this in the fund prospectus or in a variety of publications which specialize in providing a condensed version of the fund's overall picture including objective, cost, and performance. By contrast, a private money manager customizes the portfolio according to each client's investment objectives. **Using a private manager provides a very individualized approach to investing.**

Although mutual funds and private managed accounts have many common characteristics, they have many differences, too. When looking for a relatively inexpensive way to hire a good manager, a mutual fund with good performance over time, managed for much of that time by the same person is a good bet. On the other hand, there are plenty of private managers who, although somewhat more costly, have provided superb returns year after year.

At the end of the day, the best choice depends entirely on the needs, objectives and risk tolerance of the investor.

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