'Do-It-Yourself Wealth Management': Efficient and Low-Cost Access to Professionally Managed Global Diversified Portfolios

At a recent Hubbis Investment Solutions Forum, Dr Harold Kim, Founder and Chief Executive Officer of Neo Risk Investment Advisors, highlighted how the widespread availability of ETFs combined with managed account technology allows individual investors to have global, diversified, low-cost portfolios managed professionally in their own accounts with full transparency. He called it 'Do-It-Yourself Wealth Management'.

"**INVESTORS," SAID KIM, "NEED SIMPLE**, low cost, diversified, liquid portfolio investments. They also want transparency, tailored exposures, and on-going risk management, if possible, but these desirable features are generally not available through current distribution channels. For example, private banks, under constant revenue pressure, generally provide very little advice with regard to low cost investment exposures such as ETFs, which pay nothing in trailer fees back to the private banks."

The widespread availability of ETFs has transformed the investing landscape as more investors have come to realise that passive indexes outperform most active managers over time. For the five years to December 2018, Kim cited S&P research that finds that 82% of US large-cap funds underperformed the S&P500, meaning that the majority of investors would have done better by simply buying an S&P500 ETF. Kim also mentioned data

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Link to Content Summary page
Link to Article on website
Link to Event Homepage

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from Morningstar that found only 35% of active funds across various asset classes beat their relevant indexes in 2018.

"Little surprise then," Kim concluded, "that in a recent article the Wall Street Journal highlighted that more US equity assets are now managed passively than by active managers. For investors, the spread of ETFs is a good development, since investors now have access to solid investments across a variety of asset classes with low fees and with real transparency."

The second technological development is the availability of advanced managed account platforms for individual investors, enabling investors to receive sophisticated advice independently and cost-effectively. A managed account is an account that is in the investor's own name—it is not a fund or other sort of collective investment scheme where the investor's money is pooled with funds from other investors. The account and the underlying positions are held directly in the investor's name and can be accessed at any time to check positions and remit or transfer funds, providing full transparency.

In the past, institutional-size investments were a pre-requisite for opening a managed account, but today, technology has enabled democratisation of the process to the point where online trading platforms can now offer managed account capability to investors from as little as USD10,000 upwards.

The combination of ETFs and managed account capability means investors can do their own wealth management, either directly or with the help of an advisor in a low cost, efficient, transparent manner.

For example, a 60% equity/40% bond "do-it-yourself" portfolio comprising only one global equity ETF and one global bond ETF, rebalanced monthly, would have returned 7.7% per annum over the last 10 years (to May 2019). An advised, risk-rebalanced portfolio with 8-10 ETFs would have done even better, 8.5% per annum, with one third less risk.

"If you have an actively managed global portfolio, did you do better?" he asked the audience rhetorically. "The passive do-it-yourself portfolio is pretty good already, but if we add some extra help in the form of an investment adviser to manage your account and smart beta ETFs, you can do even better in terms of performance with considerably less risk."

Kim concluded that the opportunities for investors are increasing significantly as the ability to build low cost diversified portfolios across many asset classes has become easier. On the other hand, for private banks and active fund managers, the hurdle has gotten higher. "More and more investors realise there are very efficient, low-cost ways to build robust, diversified portfolios, so the challenge for private banks and active fund managers on how to add value will continue." ■