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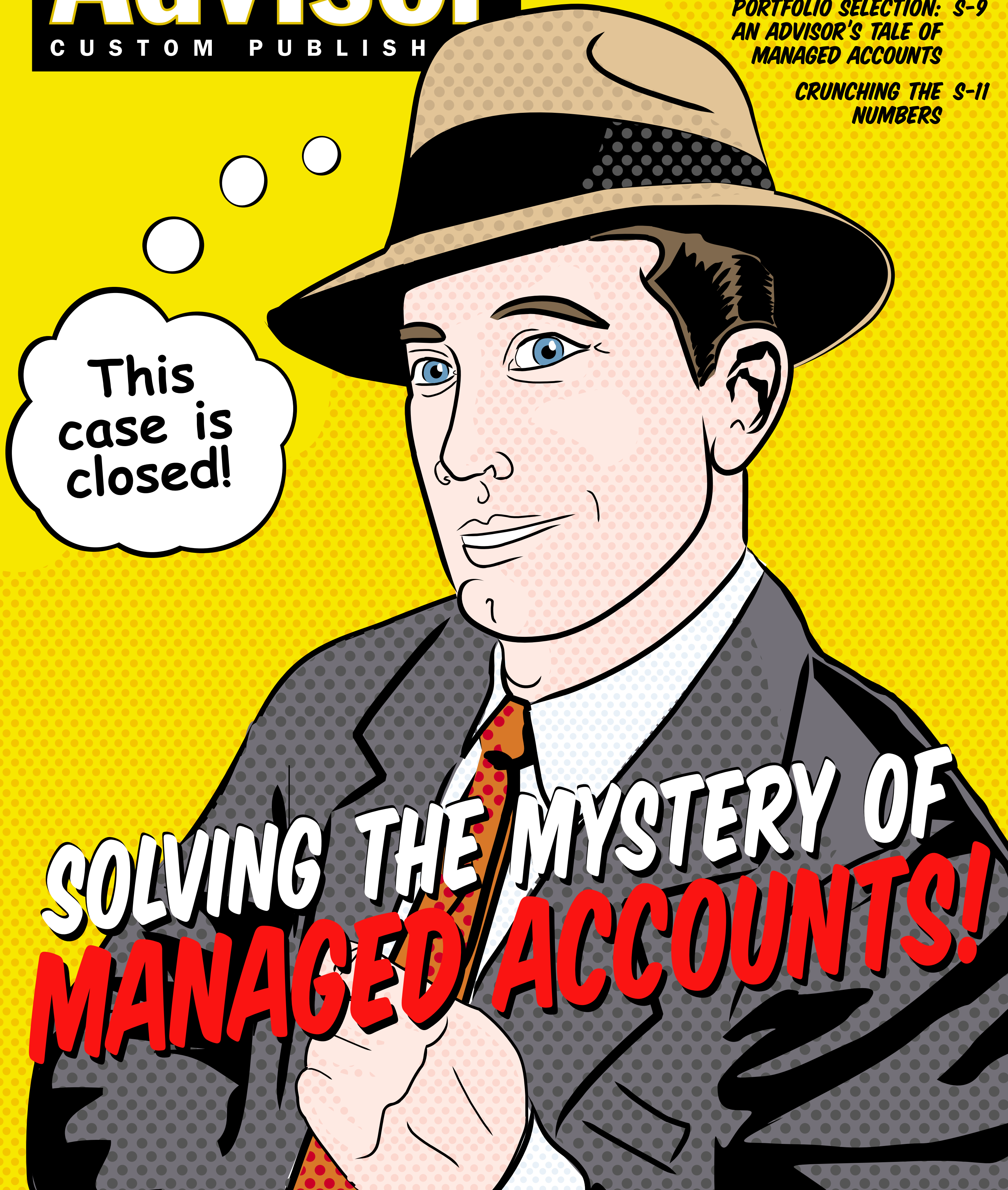
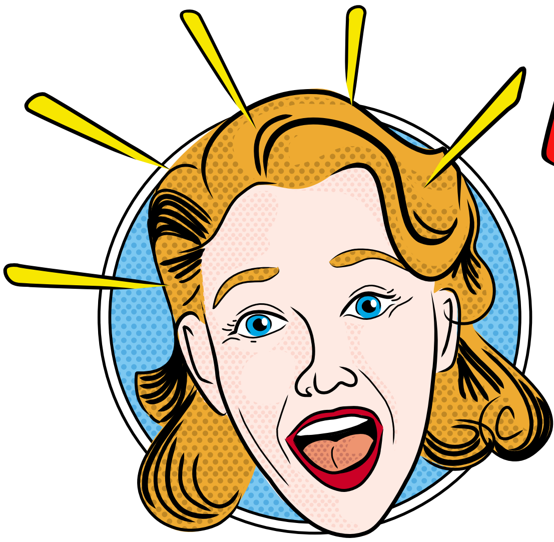


SOLVING THE MYSTERY OF MANAGED ACCOUNTS!



MANAGED ACCOUNT MANIA!

If you're not already offering managed accounts, adding them to your practice may be easier than you think.

One of the most significant trends in the financial services industry is the growing number of managed accounts—and their assets. In fact, according to Tiburon Strategic Advisors, a Tiburon, California-based consulting firm, assets in managed accounts have increased more than 700% in the past eight to 10 years, from $82 billion in 1992 to more than $582 billion in 2000. And managed account providers have made tapping into this expanding market is a top priority. In fact, there are more than 57 third-party money managers competing to help advisors just like you. Managed accounts can offer investors customization, tax efficiency, discipline, and control. For many advisors, offering managed accounts becomes a very easy decision—especially because turnkey asset management providers make it so easy. With account minimums dropping, the demand for managed accounts is growing. Soon you may have to offer them just to stay competitive. If you aren't using managed accounts, here are a few reasons why you should consider them.

By Jennifer Bull

Benefits to Clients

Customization: Clients are able to determine their risk/reward ratio and then apply that stipulation to the movement of their assets, thereby customizing their portfolios. The customization ability of managed accounts is one of their most significant advantages. Customization options are nearly endless, and can encompass all aspects from investment selection to tax efficiency and beyond.

Tax Efficiency: High-net-worth investors have realized that tax consequences on large investment portfolios can be excessive. Advisors recognize that a managed account is one way to create a more tax-efficient portfolio and minimize the high-net-worth investor's tax bite. Depending on the investment methodology of the money manager, the portfolio can either invest in tax-efficient investment vehicles or try to offset gains with losses. This tax efficient strategy is one more customization option managed accounts provide.

Discipline: Clients complete an investment profile to help both the advisor and the money manager determine investment goals, objectives, and risk vs. reward tolerances. The money manager generates an investment policy statement for the client based on the profile, which serves as a diagram for determining the effectiveness of the client's investments toward reaching their financial goals.

Reporting & Review: Professional money managers provide quarterly reports that can be compared against the client's investment policy statement to make sure the client's investments are still on track to meet their financial needs.

Sleep Loss Prevention/Control: By outsourcing the money management portion of investments, building a profile of the client's objectives, and having a financial plan, clients know that their interests are being taken care of. And advisors can sleep well knowing their clients are getting the portfolio management of top money managers.

Adding new, more custom investment strategies enables you to attract a wealthier clientele.

Benefits to Investment Advisors

Open New Doors: If you currently are not recommending managed accounts, adding them can give you the ability to expand your practice. Using a turnkey asset management provider allows you to transistion into serving the wealthy. And since many TAMPs have such low minimums, some programs may also be appropriate for middle-income clients.

Attract New, Quality Investors: Adding a new type of investment strategy enables you to offer more customized investment solutions and attract a wealthier clientele.

Outsourcing to Professionals Allows You To Spend Your Time Building Relationships and Market Share: You provide your clients with the high level of competence, experience, and expertise they demand. However, if you have many clients, it can be difficult to give all of your investors high-quality, high-visibility service. Outsourcing using managed accounts can help solve this problem and more. Outsourcing gives you time to cultivate quality relationships that top-notch clients demand.

Position Yourself as a Consultant: Using managed accounts allows you to position your business as a fee-based practice, and helps you establish an elite edge in your community. Unlike do-it-yourself investments, managed accounts require the involvement of an advisor. They also require minimum account balances which, while not vast sums of money, allow advisors to accumulate assets under management. Managed accounts also allow advisors to offer additional options to existing clients as their portfolios grow.

Types of Managed Accounts

Some investment advisors want to manage their clients' accounts themselves from start to finish. For these advisors a popular choice is a simple fee-based brokerage account, where a client picks the holdings and pays the advisor a fee to manage them.

However, because of the benefits of managed accounts, some advisors outsource elements of their financial practice using them. There are numerous types of managed accounts available. One of the most widely used is a Separate Account Management (SAM) program also known as an Individually Managed Account (IMA).

SAMs are similar to private mutual funds. These accounts are individual portfolios offered by investment advisors, and they are professionally managed with specific investment objectives using an asset-based fee structure. But unlike mutual funds, a SAM holds the assets of only one investor, and the buying and selling of securities is timed to maximize tax efficiencies. In this case the advisor selects a manager who chooses stocks and bonds for the account.

However, one of the fastest growing types of managed accounts is the mutual fund wrap. While they are not as tax efficient as SAMs or FBBAs, minimum account sizes are lower, therefore they are more accessible to investors. With this scenario, most investment advisors use a turnkey asset management provider, which charges its clients a fee to manage their portfolios. In some cases, part of the fee is returned to the advisor or the broker/dealer.

Outsourcing gives you time to cultivate quality relationships that top-notch clients demand.

Mutual fund wraps and TAMPs have become popular with advisors because they allow the advisor to diversify his clients' assets, while still earning a residual income. TAMPs also provide investment advisors with client profiling, quarterly reporting, and tax reporting. All of these services allow advisors to concentrate more of their time on asset gathering instead of asset management. This is one of the reasons why mutual fund wrap assets have increased an astonishing 4200%, from $3 billion of assets in 1992 to more than $127 billion in 2000, according to Tiburon. And, this number is expected to increase to more than $200 billion by 2005.

TAMPs have been able to provide the mutual fund investor with additional diversification and investment advice. TAMPs offer a variety of strategies, including dynamic asset allocation, market timing, and strategic asset allocation. By creating mutual fund portfolios, these companies are able to help investors enhance return and reduce risk. On average, the fees for this service range from 1.00% to 2.30% based on assets. Typically the minimum account size for mutual fund managed accounts ranges anywhere from $30,000 to $250,000 depending on the program (see listing on page S-7). Most TAMPs specialize in managing particular investment vehicles. These vehicles include traditional mutual funds, institutional funds, funds closed to new investors, tax managed funds, index funds, and exchanged traded funds. Benefits of outsourcing to a TAMP can be summed up in the following points:

- Outsourcing your non-core competencies leaves you with more time to gather assets, strengthen your market share, and position yourself as an elite service provider.
- Simplified reporting and less time filling out paperwork means more time for you to focus on developing your high-level investors.
- Client profiling, investment policy statements, money management, quarterly reporting, tax reporting, and daily internet account access.
- Access to multiple investment vehicles, including traditional mutual funds, annuities, funds closed to new investors, institutional funds, and exchange traded funds.
- They can become your back office: Most TAMPS will provide you with an easy way to transition your clients over to their operating and reporting system. They generate reporting and marketing materials for you and your clients.

Some argue that TAMPs and mutual fund wrap fees are expensive and can add up quickly. However, they are a cost-effective option for some advisors (see article on page S-11). And, while there is a fee to pay, they are a great way to build a fee-based business and get your feet wet in the managed account pool.

Managed accounts offer advisors a way to simplify their client's portfolio management while giving the client the peace of mind that comes from knowing that their money is in experienced hands.

Jennifer Bull is the marketing production manager for Clarke Lanzen Skalla Investment Firm, Inc., which offers managed accounts. For more information on CLS, call 888-455-4244 or visit www.clsinvest.com.

TURNKEY ASSET MANAGEMENT PROVIDERS

Whether you choose private money managers or TAMPs, there are many options for advisors who want to offer or learn more about managed accounts. If you choose a private manager, there are several firms we listed below who can help you narrow your search.

But if you're just getting acquainted with managed accounts, you may be more interested in our listing of TAMPs. While preparing this list, we found that there has been some consolidation in this industry, and that the providers and their products are constantly changing. For example, RunMoney was acquired by AdvisorPort.com in April, and Morningstar has only been offering its program since January. We also found that many TAMPs are eager to venture into new products, such as ETFs and hedge funds, and some plan to roll out new products by year end.

The listing includes assets under management, account minimums, product options, and the company's Web address. We should note that most providers have many different levels of service, and thus, different minimums. So while $50,000 might get your client into a mutual fund account, it may not be enough for the equity portfolio. While our listing may not include every TAMP available to advisors, hopefully this is a good place to start.

—Angela Hollis Finch

Company	Assets Under Management	Account Minimums	Mutual Funds	SAMs	Variable Annuities	FBBA	ETFs	Folios	Alternative Investments	Web Address
Assante	$1.6 billion	$100,000	x							www.assante.com
AssetMark	$1.7 billion	$50,000	x	x	x					www.assetmark.com
AdvisorPort.com	$1.8 billion	$100,000	x	x		x			x	www.advisorport.com
Astrop Advisory	$100 million	$50,000	x	x		x				www.astrop.com
BTS Asset Management	$500 million	$10,000	x		x					www.btsmanagement.com
Bell Capital Management	$350 million	$100,000	x	x	x	x	x	x		www.bellcapital.com
Brinker Capital	$3.0 billion	$300,000*	x	x				x		www.brinkercapital.com
Buckingham Asset Management	$1.1 billion	Advisor's Discretion	x				x			www.bamservices.com
Callan Associates	NP	NP								www.callan.com
Centurion Capital	$1.9 billion	$50,000	x	x	x					www.centerioncm.com
Clarke Lanzen Skalla Investment Firm	$1.0 billion	$30,000	x		x					www.clsinvest.com
Envestnet PMC	$5.9 billion	$100,000	x	x					x	www.envestnetpmc.com
Frank Russell	$7.5 billion	NP	x	x						www.russell.com
FundQuest	$2.5 billion	$100,000	x	x			x			www.fundquest.com
Greenrock Research	$1.0 billion	$250,000		x					x	www.greenrockresearch.com
Investment Consulting Group (ICG)	NP	$250,000	x	x					x	www.galleryworks.com
LBS Capital Management	$50 million	$25,000	x		x				x	www.indexandsectorinvesting.com
Lockwood Financial	$8.7 billion	$100,000	x	x			x			www.lockwoodfinancial.com
London Pacific Advisors	$1.7 billion	$100,000	x	x			x			www.lpadvisors.com
Meridian Investment	$1.2 billion	$25,000	x	x			x			www.mimcorp.com
Morningstar	NP	$50,000	x							www.mp.morningstar.com
Oberon Financial Technology	$500 million	$50,000	x	x		x				www.oberonft.com
Quantum Asset Mgmt.	$50 million	$100,000		x						www.qamonline.com
RTE Asset Management	$400 million	$25,000	x		x					www.rte-asset.com
SEI Investments	$28.0 billion	$100,000	x	x						www.seic.com
Vista Analytics	$1.0 billion	$100,000	x	x					x	www.vistaanalytics.com
West Hills Institutional	$300 million	$100,000	x	x	x	x	x			www.westhills.com

NP - Information not provided

** - Per investment strategy*

Source: Tiburon Strategic Advisors, IMCA

Choosing a Private Money Manager: Here are a few resources to choose a private money manager:

Effron-PSN	www.effron-psn.com	Mobius	www.mobius.com
Prima Capital	www.primacapital.com	Nelson Information	www.nelsoninformation.com

PORTFOLIO SELECTION:
AN ADVISOR'S TALE OF MANAGED ACCOUNTS

By Angela Hollis Finch

The term "asset allocation" was rarely used twenty years ago. Advisors were taught to "avoid putting all their eggs in one basket." So where do you put your eggs? Markowitz's Modern Portfolio Theory redefined the notion of diversification. You try to find baskets that are distinctly different from one another with unique patterns of return that offset each other, smoothing out volatility. You look for investments that are negatively correlated so they are not moving up and down together. Investors need to be concerned about risk as well as return and how investments interact with each other. How does an advisor create the best portfolio for their clients given a certain level of risk? Which money manager is going to make the security selection and in which sectors of the economy? After choosing the money managers, who will evaluate the managers' performance and determine how well the managers did as opposed to how well they should have done given the level of risk taken?

Richard Egan

As Richard Egan knows, sometimes it can be too much for an individual financial advisor to be able to service his clients' needs and create optimization models. How do you get it all done? That's where managed accounts come in. Financial institutions provide these services to advisors on a turnkey basis. With the advent of the computer, what used to be available to only the "large" investors such as pension funds is now available to the "small" investor. We recently sat down with Egan to learn more about how he uses managed accounts.

Like many advisors, Egan, a Certified Financial Planner, begins his day with a large stack of mail and his phone ringing off the hook. Egan, vice president of Red Bank, New Jersey-based Buckman, Buckman & Reid, is a fee-based advisor who is trying to steer his practice more into the fee arena because he says, "that's where the industry has been heading for some time." One way he's making the transition is through using managed accounts.

Egan primarily uses four different managed account products that encompass mutual fund wraps and separate account wraps, because he says he has "become comfortable" with these products but wants to learn about more options that are available to him.

Here's a rundown of some of the products Egan uses:

For mutual funds and individual stocks, Egan uses primarily four different programs: FundSource from First Clearing; the Compass Advisory Program from First Clearing; Saratoga Capital Management; and SEI.

FundSource

Since Egan's firm uses First Clearing Corp., a division of First Union, for clearing, he has their "Fund Source Program" loaded on his desktop. This program gives him access to dozens of managed account options from First Union. Egan says he often uses the FundSource mutual fund program because he has access to more than 12,000 funds, it's easy to use, and has convenient reporting features. FundSource uses existing mutual funds, so clients can look up their accounts in the newspaper as well as view their accounts online through the company's Web site. Egan can see his clients' accounts on his computer network without going to a special Web site, and the whole system is really turnkey.

When Egan clicks on one of the five basic portfolio types, a screen comes up that shows him the asset allocation, as well as each fund that the managers at First Union have chosen. He can click on each fund to find out detailed information on holdings and returns, and he has the option of accepting the portfolio as is, or modifying it to better suit his client's needs. For example, some clients may wish to be in a tax sensitive managed portfolio, others may want to limit their exposure to international stocks or only want to be in value funds. Whatever the case, Egan can customize the portfolio to satisfy his client's needs.

Compass Advisory Program

A program from Compass Advisory allows the advisor to create an account of individual securities that mirrors an existing money manager's portfolio. Let's say that the client wants to hold a particular fund, but isn't fond of several stocks in the portfolio. The advisor has the ability to buy only the stocks the client wants, and can make substitutions. He has the ability to examine each stock holding by clicking on it.

But how do you maintain all of the holdings? Aren't these funds pretty actively traded? The solution is simple: The fund manager generates an e-mail to the advisor each time a trade is made, and the client and advisor can decide whether or not they want to make the same trade.

But how do the fund managers get paid for basically doing the work for you? Not to worry, they have a tracking system so that the fund company gets a "royalty" for duplicated trades.

SEI Investments

The managed account program from SEI that Egan uses is sort of a mutual fund type of offering, however, they are proprietary mutual funds to which not everyone has access. A sample portfolio for the Institutional Growth and Income Portfolio shows significant diversification. The portfolio contains five asset classes (42% U.S. stocks, 18% international stocks, 29% U.S. bonds, 10% international bonds, 1% cash), 11 sub-asset classes, 40 styles, 37 managers, and 2920 individual securities—all for a fee of about 1%. So even when the advisor adds a fee of 1% to 1.25%, the cost to the client is still about the cost of owning one mutual fund.

Egan says that with this program, you turn the money over to SEI, but the client gets access to 37 top managers. One downside is that SEI doesn't interface with his network, but he still has access to his clients' accounts through the Internet.

Egan concedes that even though he really likes SEI's managed account program, he continues to explore more turnkey products and would use other programs as he learns about them. He says that with every product, "there's something good and something bad."

Saratoga Capital

Another outside turnkey program that Egan uses is Saratoga Capital. Saratoga Capital "networks" their funds directly into the First Clearing system to allow Egan to view the funds on his client's account screen. Saratoga, like other investor-focused firms, provides state-of-the-art, institutional services to each of his clients. Also, like the other programs, Saratoga gives access to top-quality money managers usually limited to investors with large dollar accounts. One of the advantages of the Saratoga program is the low account minimums. Investors can participate in a comprehensive program with as little as a $10,000 investment.

All the programs provide performance reports to the clients on at least a quarterly basis and compare those performances against benchmark indexes. They report as to how the portfolio is presently allocated and what the target allocation should be. This will alert the investor about the need to rebalance. All reports also include changes of money managers and market comments. Investors can be very active in the decision making of their investments or put the programs on automatic pilot. In all programs Egan uses, he says "they offer is great flexibility."

But the bottom line for Egan is that he knows he is offering his clients the best money management possible. And that, he says, lets him sleep better at night.

CRUNCHING THE NUMBERS

TAMPs are a great way for advisors to get started with managed accounts, but for advisors with more than $25 million under management, outsourcing to an ASP could save you and your clients big bucks.

By Paul Kuppinger and Gib Watson

With the increasing wealth of today's consumers, many pundits and strategists believe that traditional financial planners and investment professionals will need to become "private wealth managers" in order to effectively compete and meet the demands of their clientele. As such, successful investment professionals will need to offer comprehensive services, including sophisticated products, detailed and integrated advice, advanced research capabilities, and comprehensive reporting systems. Not all financial advisors can or should become "private wealth managers." Investing in more sophisticated products requires an internal infrastructure and a client base that will be able to support a "private wealth management" practice. However, if an advisor has significant assets under management, or has a client that recently has come into a large amount of money, private accounts can prove to be a very lucrative focus for the advisor's business.

Managing money for high-net-worth individuals can prove to be a highly profitable business model for the private wealth manager. Rather than managing 100 accounts (representing 30-40 client relationships) worth $250,000 each, a private wealth manager could alternatively manage 10 accounts (Five client relationships) worth $2.5 million each, subsequently making more money with the same assets under management and working smarter, rather than harder. By managing a smaller group of clients with more substantial assets, the advisor can decrease his total number of client meetings quarterly and annually, conduct fewer total financial planning sessions, and focus on providing more substantial advice and services to a smaller, more lucrative group of clients while simultaneously increasing total profits. With an emphasis on private wealth management services, advisors will be able to extend their reach into the wealthy investor community and grow their client base within this profitable niche.

In order to add private accounts to an existing business, advisors will need to have a back office structure that can support trade execution, reporting, and custody of the assets in the private accounts. If these needs cannot be supported internally, they may need to be accessed through a larger institution. The advisor will also need to provide portfolio accounting, reconciliation, performance measurement, and client reporting on private accounts. The addition of private accounts may require some internal reorganization of an advisor's office. While the required restructuring may seem daunting at first, the benefits to the advisor's business can be substantial.

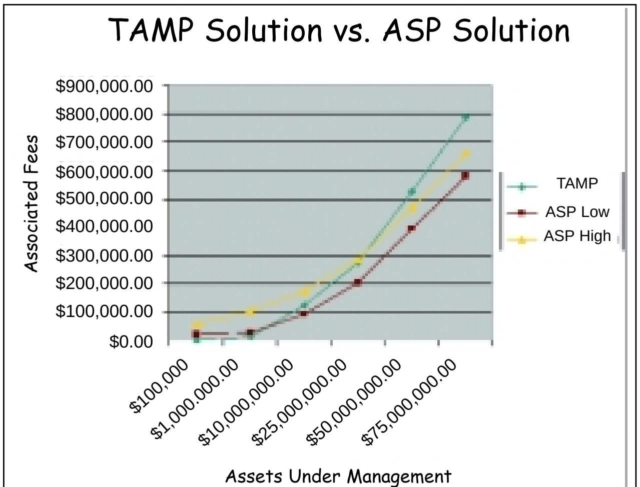
Advisors who have made the decision to offer private accounts to their clients, or whose clients are demanding more sophisticated products, can approach the business management needs associated with private accounts in several ways. Turnkey Asset Management Providers (TAMPs) or independent wrap programs may offer a means to rapidly enter the private account market. These programs offer full service tools, including asset allocation, proposal generation, manager research and due diligence, back office processing, and performance reporting, which help the novice financial advisor build a private account program. By offering a soup-to-nuts solution, TAMPs can be a quick means for advisors to ramp up their business and offer private accounts to their high-net-worth clients. However, in order to access all of these services, the advisor, and subsequently their clients, will ultimately pay the TAMP or wrap program administrator a hefty fee based on a percentage of assets under management for services which they may not be fully utilizing. For example, the traditional TAMP may charge anywhere from 25 to 100 basis points on the total assets under management for their services (depending on the total assets under management). This does not include additional fees that the advisor/client will have to pay to the manager (which averages 50 basis points for equity accounts and 35 basis points for fixed income accounts) or the fees that they will have to pay for custody and trading of the assets (ranging from 10 to 45 basis points). With most TAMPs, the financial advisor will then set up his or her own fee structure on top of the other associated fees (although some TAMPs will pay the advisor a percentage of their fees). The end result is that the client may end up paying anywhere from 125 to 300 basis points to invest in private accounts through his or her advisor.

As the advisor's total assets under management increase, they will continue to pay a percentage based fee to the TAMP, in addition to manager, custody, and trading fees. An advisor with $10 million in assets under management may pay a total of $125,000 per year in associated fees, including fees to the TAMP, custodian, and manager. An advisor with $25 million under management might pay a total of $275,000 in fees. (See Table 1 on the next page for details on fees). As assets under management increase, the advisor may receive a negotiated price break from the TAMP, however he will still be paying a sizable chunk of money. Additionally, as the advisor's business matures and he/she begins to internalize some of the back office, reporting, asset allocation, and other administrative needs, the fees paid to the TAMP will ultimately include services that are no longer utilized or considered to be of value.

In addition to the high costs associated with TAMPs, most offer a very limited number of private account products. As stated previously, wirehouse firms and TAMPs often choose their "select" private account managers based largely on operational, marketing, and purely business considerations. Therefore, their products may not represent the "best" private account products or those most suitable for the wealthy taxable investor. Instead, they represent the "best" products in terms of their ability to cater to the demands of the wirehouse brokerage firm or TAMP. This puts the advisor in an awkward position as the fiduciary for the client, whose ultimate goal is to serve and uphold the best interests of the client. With a limited number of products from which to choose, the financial advisor may actually be compromising his clients' investment needs by not offering a choice and access to better, more suitable products for their unique situations.

An advisor can internalize many of the services associated with private accounts by building them in house and/or by utilizing Application Service Providers (ASPs). By transferring the responsibility for non-core business processes to an outsourcing partner, advisors can streamline the process of offering private accounts to their clients, reduce costs, differentiate themselves in the market, and better leverage their time to focus on relationship building, client service, and referral generation. Some advisors with large practices may wish to build back office, reporting, research, and other services internally. However, building internally can prove to be both costly and time consuming. Advisors who wish to get to market quickly and cost effectively with a private account offering should seriously consider outsourcing some of these services to ASPs rather than building them internally.

TAMPs may offer a good solution as advisors are getting started with private accounts. However, as an advisor builds significant assets under management in excess of $25 million, the cost benefits and effectiveness of using a TAMP begin to disappear (See graph above). As mentioned above, an advisor with $25 million under management may end up paying the TAMP, custodian, and private account manager an estimated total of $275,000 per year. By outsourcing some of the services provided by the TAMP, he would be able to offer his clients a more robust solution, and potentially realize a significant reduction in associated annual fees.



*Graph shows both high and low estimates for total ASP solution costs. If an advisor already has some components internalized or chooses to go with the less expensive option, the cost savings of using the ASP solution will be visible at $7-10 million AUM. If the advisor chooses to utilize the higher end ASP solutions and does not already have any back office internalized, the cost savings will begin at $25 to $30 million AUM. See table on the opposite page for details on associated fees.

Source: Prima Capital

The advisor would need to pay for:

Asset allocation software, about $1,000 to 10,000 per year (the high end being very sophisticated software);

Custody and trading, about $25,000 to $112,500 per year (depending on assets and total trades per year);

Research, due diligence, and analyst opinions on a wide range of managers and mutual funds for $5,000 to $25,000 per year.

Cost of Application Service Providers Vs. Turnkey Asset Management Providers

TAMP SOLUTION

Associated Fees	$1 Million AUM	$10 Million AUM	$25 Million AUM	$50 Million AUM	$75 Million AUM
Fees to TAMP	$5000 (50 bps)	$50,000 (50 bps)	$87,500 (35 bps)	$150,000 (30 bps)	$225,000 (30 bps)
Fees to Manager	$5000 (50 bps)	$50,000 (50 bps)	$125,000 (50 bps)	$250,000 (50 bps)	$375,000 (50 bps)
Fees To Custodian	$2500 (25 bps)	$25,000 (25 bps)	$62,500 (25 bps)	$125,000 (25 bps)	$187,500 (25 bps)
Total Fees	$12,500 (125 bps)	$125,000 (125 bps)	$275,000 (110 bps)	$525,000 (105 bps)	$787,500 (105 bps)

ASP SOLUTION

Associated Fees	$1 Million AUM	$10 Million AUM	$25 Million AUM	$50 Million AUM	$75 Million AUM
Fees to Manager	$5,000 (50 bps)	$50,000 (50 bps)	$125,000 (50 bps)	$250,000 (50 bps)	$375,000 (50 bps)
Fees to Custodian	$2,500 (25 bps)	$25,000 (25 bps)	$62,500 (25 bps)	$125,000 (25 bps)	$187,500 (25 bps)
Asset Allocation	$1,000 to $10,000	$1,000 to $10,000	$1,000 to $10,000	$1,000 to $10,000	$1,000 to $10,000
Performance Reporting	$10,000 to $50,000	$10,000 to $50,000	$10,000 to $50,000	$10,000 to $50,000	$10,000 to $50,000
Portfolio Accounting	$2,000 to $13,000	$2,000 to $13,000	$2,000 to $13,000	$2,000 to $13,000	$2,000 to $13,000
Research and Due Diligence	$5,000 to $25,000	$5,000 to $25,000	$5,000 to $25,000	$5,000 to $25,000	$5,000 to $25,000
Total Fees	$25,500 to $105,500	$93,000 to $173,000	$205,500 to 285,500	$393,000 to $473,000	$580,500 to $660,500

*We made several general assumptions when calculating cost estimates. Assumptions are as follows:

- Advisors manage 100 accounts for each scenario. Accounts are defined as the total number of accounts, not the total number of client relationships the advisor manages.
- We are assuming that advisors do NOT already have any of the necessary back office components internalized.Therefore, the savings they will experience may be much greater than represented by the numbers in this table.
- The costs associated with both the TAMP and the ASP solution are variable and can be negotiated. We did our best to find the average costs.
- We made the assumption that the manager fees with remain the same after the advisor separates from the TAMP. We believe that most managers will maintain the same fee structure regardless of the platform the advisor uses to access the manager.
- Total fees do not include the fee that the advisor will charge the client. The advisor will stack his/her fees on top of the above listed fees.

Source: Prima Capital

Performance reporting from a service bureau, if purchased, would cost about $100 to $500 per account.

Portfolio accounting software would cost about $2,000 to $13,000 per year (advisor can purchase software or outsource this service).

The advisor will still need to pay fees directly to the custodian and the manager. However, most advisors may already have many of these outsourced services in use in their practice. Therefore, there may be fewer incremental costs and greater savings when they bring the private account solution in house instead of paying for the full service TAMP solution. In fact, many advisors may begin to see a cost savings by outsourcing to ASPs with as little as $8 to $10 million in assets under management, depending on the level of services they demand (See graph on opposite page).

To further build the financial scenario, let's say an advisor has 100 clients with $250,000 of assets in each client account. He can expect to pay a flat fee ranging from $205,500 to $285,500 per year depending on the level of services desired vs. $275,000 per year for a TAMP solution. This could represent a savings of $69,500 per year. In a worst-case scenario, the advisor would break even on the associated fees, but have more flexibility as well as the foundation for a more robust and customizable solution that would differentiate the advisor's services in the market and add measurable value to his/her clients. Importantly, if an advisor with 100 clients increases his or her total assets under management to $50 million, the fees associated with the ASP modular solution will range from $393,000 to $473,000. However, the TAMP fees will increase to $525,000 and will continue to increase as the assets under management grow. The ASP model will generate a savings—$52,000 to $132,000 per year—while also providing a substantially superior private account solution. (See table for details). However, the savings associated with the ASP model will most likely be greater as many advisors already utilize some of these software and outsourcing solutions.

Most importantly, by building the process internally and partnering with ASPs, the advisor will ultimately be able to offer his clients better, more personalized investment options. Today's wealthy clients want their taxable and tax-deferred accounts to have comprehensive asset allocation models that take into account their total financial picture and unique needs. Many wealthy investors hold more than managed portfolios and other traditional investments. In fact, in addition to their portfolios of marketable securities, most have investments in real estate, commodities, art, antiques, and other alternative investments. Therefore, they demand that their advisor provide reporting, comprehensive balance sheets with all their assets, and financial plans that take into account the totality of their financial situations. Finally, investors need portfolio managers who can consistently beat their benchmarks and also provide managed portfolios customized to meet their client's asset class, taxation, and investment needs. An advisor is simply not able to provide all these services to his/her clients with a Turnkey Asset Management Provider.

Advisors who use an outsourced ASP private account solution with $25 million in assets under management instead of a TAMP, will at least break even on their total costs, while providing their clients with more choice and better services. Additionally, they will build a more efficient and more effective private account solution internally. As the advisor's assets under management increase to over $25 million, the argument to outsource services to ASPs becomes even more compelling, as it maximizes financial savings as well offers better services and more choice to high-net-worth clients.

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