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Morgan-Smith Barney Unveils New Unified Accts

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Financial advisors at Morgan Stanley Smith Barney[1] will soon have access to a new unified managed account program that delivers a fully stocked portfolio crafted by a team of seasoned analysts from the brokerage's manager research and capital markets units. The UMA program, which will offer managers and products selected by the new Portfolio Advisory Services group, is set to launch Aug. 10.

The new program will be available to advisors from both the Morgan Stanley and Smith Barney legacy brokerages that joined into a single firm on May 31 and had 18,444 advisors as of June 30.

For money managers, the new program may present an opportunity to gain assets because of the brokerage's large size, the fact that most of its advisors haven't had preset portfolio construction options at their disposal, and the high expectations the joint venture has for UMA program growth. Even in first-quarter totals tallied by Cerulli Associates[2] prior to the merger's closing, Smith Barney and Morgan Stanley together had $22.9 billion in UMA assets – more than the next six UMA programs combined.

"I think this one is a game-changer," says **Jim Tracy**, head of the joint venture's consulting group, which runs the managed account platforms. "This is a clear example of what a firm like Morgan Stanley Smith Barney, using all of its research expertise and [access to product], can bring to bear to help advisors deliver services to their clients."

The initiative will create a core lineup of portfolios built around the brokerage's eight standard asset allocation models, and will be open at account minimums starting at $50,000. The firm will offer customizable versions of the core portfolios for ultra-high-net-worth clients and institutional investors, including access to higher-end alternative investments.

The program's architecture echoes the standard UMA, which combines investing vehicles such as separately managed accounts (SMAs), mutual funds and exchanged-traded funds (ETFs) into a single client account. The Portfolio Advisory Services unit will select from the same menu of 500 products on the brokerage's standard UMA.

Tracy says with the new program's launch, advisors will be able to offer three levels of service: "nondiscretionary" portfolios built with their client's direct input; "discretionary" portfolios, in which clients let advisors make manager selection decisions; and now a "firm discretionary" option where clients and advisors can hand off manager selection and asset allocation tasks to the new portfolio-building team. He says the new option furthers the managed account industry's evolution to "embed advice" into product platforms.

The program will incorporate a broad scope of advice that will decide what portions of a portfolio should use strategic – or long-term-focused – asset allocation versus a tactical approach that adjusts the weightings of individual asset classes to meet market conditions. It will also will decide when it's best for a portfolio to be in actively managed versus passive, index-style products, as well as when the client's account should have alternatives or other non-correlated assets – and how deep to go into those options.

Tracy says the program responds to client demands reverberating from last year's market crash. "There has been so much change in client tendencies and needs, and in how we're reacting to that," he adds.

The firm has tapped **Halvard Kvaale**, who ran Morgan's due diligence team prior to the merger, to lead the Portfolio Advisory Services group. He reports to **Henry**

Kaplan, who had run Morgan's entire consulting group and now is the associate head of the joint venture's combined consulting group, reporting to Tracy.

Kaplan will tap into an investment committee of senior people on the brokerage's due diligence and capital markets teams for broad-level planning of the portfolios. He also will also oversee teams of portfolio managers and analysts working specifically on crafting and implementing the program lineups.

One of the key contributors is **Frank Nickel**, who had a senior role working with Smith Barney's manager due diligence unit. His new duties include serving on the investment committee advising on the portfolio construction decisions. Others on that committee are **Franco Piarulli**, **Vincenzo Alomia**, **Nicolas Richard**, **Lee Pease**, **Rob Seidel** and **Jay Shearon**– who together bring expertise on ETFs, alternatives, asset allocation, manager selection, passive investing and other functions.

In addition, **Tom Leeds** and **David Judice** are on Kvaale's team as research analysts. And his group will consult with an advisory committee of senior executives from the capital markets and overlay management units, including **David Darst**, **Jacques Chappuis** and **Roger Paradiso**, along with **Paul Gallagher** as legal counsel. The advisory panel will also have an external consultant whose contract is being finalized, Tracy says.

Today, advisors have access to the asset allocation models – which are essentially recommendations for which asset classes a client portfolio should have within eight risk profiles along the spectrum from conservative to aggressive.They also have access to hundreds of SMA strategies and other products on the due diligence-driven managed accounts platforms. While there are some tactical manager recommendation lists available to help advisors narrow selections, the new program is the first option to construct an entire portfolio, Tracy says.

"It's ideally suited for a financial advisor who wants to spend a lot of time with clients, to have that wealth advisor relationship but not be tied to the responsibility of following the markets and conducting a deep level of research on managers," Tracy says. "It leverages the financial advisor's time to focus on client service and financial planning and the wealth manager role."

The set-up probably won't be a significant change for money managers who are used to deploying teams of wholesalers to interact with advisors at a local branch level, because many of them are already working largely in a product support function rather than a sales role, says **John Shields**, a principal in Portsmouth, N.H., for MainStay Consulting Group[3].

"This isn't new to the investment managers who are playing in this segment of the marketplace," he says. "The clients will still expect the advisor here to know the investments – to intimately know the details of the portfolio and the investment process," Shields adds.

Links

1. http://www.morganstanleysmithbarney.com/
2. http://www.cerulli.com/
3. http://www.mainstaycg.com/