

# Industry Overview

Provider	Self-Manager	Brokers & Financial Planners	Mutual Funds	Wrap Accounts	Hedge Funds	Private Portfolio Managers
Description	Individuals who self direct their investments, typically using a discount brokerage like Schwab, E-Trade, TD Ameritrade, etc.	<p>Brokers: individuals or firms that charge a fee or commission for executing investment decisions for an investor</p> <p>Financial planners: professionals who assist individuals in meeting financial objectives through tax planning, asset allocation, risk management, retirement and/or estate planning</p>	<p>Securities that give small investors access to a diversified portfolio of equities, bonds and other securities</p> <p>Each shareholder participates in the gain or loss of the fund</p> <p>Shares are issued and can be redeemed as needed</p>	Privately managed investment accounts opened through a brokerage or financial advisor that use pooled money to buy individual assets for a flat quarterly or annual fee	<p>Legally, hedge funds are most often set up as private investment partnerships that are open to a limited number of investors and require a very large initial minimum investment</p> <p>Some strategies are aggressively managed portfolios of investments that use advanced investment strategies such as leverage, long, short and derivative positions in both domestic and international markets with the goal of generating high returns</p>	<p>Professionals specializing in managing investments for companies and individuals in return for a fee</p> <p>Investments are managed in separate accounts and the manager has the fiduciary duty to choose and manage investments prudently for his or her clients, including developing an appropriate investment strategy, buying and selling securities to meet those goals</p>
Service	N/A	Can be a rewarding personal relationship	Little to no personal service	<p>Client serviced through an intermediary</p> <p>No contact with the individual managers</p>	Varies widely	Can offer highly personalized service
Fees	Though no management fee is involved, the time spent self managing and the lack of access to information can represent large opportunity cost	Fees often motivate brokers to trade and to sell proprietary products	Fee rates vary, some involve additional sales charges	Multiple fee layers: the broker and the money manager	High, performance-based fees can encourage excessive risk taking (for you, not the manager, who has all the upside but no downside)	Fees based on assets under management, aligning incentives
Advantages	Optimal for individuals not looking to give up control and who have both the time and expertise to self manage	Popular among those looking for a local provider for their investment advice	<p>Best suited for smaller investors looking for diversification</p> <p>Easy access</p>	Best for those looking for diversification of managers and the outsourcing of strategy decisions	Designed for large investors looking for intricate investment strategies	<p>Can offer custom-tailored accounts based on individual client objectives with full visibility</p> <p>Best for investors looking to delegate decision making with personalization and ideal for high net worth individuals</p>
Disadvantages / Risks	<p>Most people do not have training, expertise or discipline required to be strong portfolio managers</p> <p>Can be time-intensive</p>	<p>Portfolio management not core competency</p> <p>"Jack-of-all-trades" responsible for sales, service, management</p> <p>Brokers often push proprietary products</p> <p>Compensation structure can encourage high portfolio turnover and "selling" of company's own products regardless of their being the best option</p>	<p>Tax inefficient as the investor has no control over the strategy within the fund</p> <p>Overlap of securities across funds leads to duplication and overexposure in certain equities</p> <p>Requires investor to still make many decisions</p> <p>Cannot customize a mutual fund for an individual investor</p>	<p>Managers do not form a cohesive investment strategy</p> <p>Wrap structure leads to inefficiencies and overdiversification between managers</p> <p>Category-specific managers selected on past/current performance can lead to "heat chasing"</p> <p>Most impactful decision left to intermediary who is not a portfolio manager</p>	<p>Investments are often managed as "black boxes" with typically little transparency</p> <p>Investments might be illiquid and undisclosed</p> <p>High minimums</p> <p>Little regulation</p> <p>Only a partial solution</p>	<p>Wide variety of specializations may make suitable provider difficult to find</p> <p>Generally not accessible for smaller investors</p>