



Advisors, Sponsors Clamor for Tactical SMAs (By [Tom Stabile](#) July 8, 2010)

Tactically focused separately managed accounts are in high demand in the wealth management market, according to money managers that are developing, launching and ramping up distribution of such products for financial advisors. And most of the recent entrants are crafting SMAs built of exchange-traded funds to provide maximum tactical flexibility, such as a new slate of portfolios built by Boston-based **Natixis Global Associates** and unveiled on the platform at **Charles Schwab** earlier this year.

“The demand was from Schwab and from the advisors who use that platform as well,” says **Curt Overway**, president and portfolio manager of the **Managed Portfolio Advisors** affiliate at Natixis. “We see increasing demand for products with tactical asset allocation at other sponsor firms as well.”

The new tactical lineup from Natixis on Schwab’s Access platform is a slate of five balanced SMA portfolios shaded by different risk tolerances, from conservative to aggressive, built with ETFs and mutual funds as the underlying securities. The manager has teamed with **Litman/Gregory** as its subadvisor for the product, which includes a twist because Natixis is providing active tax management, building on its own overlay management specialty. Overway says it is too early to disclose assets under management for the strategy.

“Litman/Gregory has run strategically allocated portfolios of ETFs for several years, but now we’re seeing demand for tactically allocated ones,” Overway says. Natixis expects to expand distribution of the new SMAs on other platforms in the future, he adds.

There was virtually no high-net-worth market demand for such products six or seven years ago, says **Rob Williams**, partner and head of research at **Sage Advisory Services**, a \$9 billion fixed income institutional manager based in Austin, Texas, that has seen its retail SMA built of ETFs grow to \$500 million in assets.

“It has been one of the fastest-growing areas for our firm,” Williams says. Sage’s tactical strategy is currently on the SMA platforms at **RBC Wealth Management Americas** and **Investnet**, and may soon join a few other platforms, Williams says. Sage has had the tactical product in the institutional client space for about a decade and now has about \$200 million in assets from institutions. It has only focused on the wealth management space since 2007, and has added most of its retail market assets since 2008.

“We’re making more of a marketing effort for it and putting some resources to it,” Williams adds. “We hired a few people on the retail distribution side. We were seeing demand for this product through 2008 and 2009. Advisors want someone to have the ability to tactically move around and when they want to make a change, be able to implement it and not miss the benefit.”

Other new tactical SMAs have hit the market or expanded distribution in recent quarters. **Nuveen Investments** affiliate **HydePark** recently launched its Intelligent Risk Portfolios, a set of dynamic asset allocation-based strategies that use ETFs. New York-based **Avatar Associates** in the past few months has added its global tactical asset allocation SMA portfolios built of ETFs to the dual contract platforms at **Wells Fargo Advisors, RBC** and **Raymond James Financial**. Meanwhile, another pair of tactically driven SMAs debuted this year on the **Curian Capital** platform for independent brokerage advisors after that Denver-based sponsor hired two subadvisors – **Mellon Capital Management** to run a “dynamic risk-managed” tactical SMA and **Armored Wolf** for an “enhanced real return” inflation-protection strategy.

And just yesterday, **Investnet** announced a new set of “global dynamic asset allocation portfolios” that includes a set of SMAs constructed of ETFs, in addition to fund-style versions. **Investnet** has signed on **Singer Partners**; a manager focused on global asset allocation portfolios, to build the strategies that will identify and pounce on gaps between fundamental values and market prices within the constraints of various risk tolerance levels.

Earlier this year, **Cerulli Associates**, a research consultant, estimated that strategies made of ETFs constituted about \$7 billion of the roughly \$540 billion in SMA assets overall.

The new **Natixis** product set relies on **Litman/Gregory** to pick the ETF or mutual fund holdings for each of the allocation models, as well as provide secondary or tertiary choices, which lets the overlay management team act on tax loss harvesting opportunities for individual clients by selling a security and buying one of the alternative options. **Overway** says he believes that is a unique aspect of the **Natixis** SMAs.

The portfolios overall have a broad-based global mix that will largely stay with big market plays and not delve into country-specific or industry-specific holdings. **Overway** says while there are no set restrictions on the subadvisor in terms of portfolio turnover or allocation breakdowns, the strategies shouldn’t have extreme turnover based on **Litman/Gregory**’s track record, but instead should change when big tactical opportunities arise in undervalued sectors.

The five risk profiles range from an 80% fixed income and 20% equity mix for a conservative model to an all-equity flavor on the aggressive side. **Overway** says the holdings mix for fixed income might tilt to mutual funds instead of ETFs because of better coverage for eclectic styles such as high-yield debt or emerging markets bonds. The portfolios can also invest in cash or cash equivalents.

Meanwhile, the tactical SMA push at **Sage** should continue, **Williams** says. In the past year, it hired **Michael Walton** to lead product management and marketing as well as four regional marketing consultants for the retail market.

Williams says **Sage** is eager to distribute its tactical SMAs as model portfolios where the sponsor platform runs the account trading. It currently has an all-cap equity tactical SMA

and an all-asset class version with fixed income ETFs, including styles such as international bonds and mortgage-backed securities.

Sage's strategies also are not built for high turnover, instead focusing on 10 to 15 holdings out of a universe of 50 ETFs. In most years, there are about 50 changes to the allocations, Williams says. The strategy allows tactical moves that dial up or down 20% of the entire portfolio.

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