# The Axiom of Choice

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Investment opportunities in the equity markets are profuse, but their effective execution is what drives success. Finance has increasingly prioritized valuation proxies such as market capitalization, book to price, and other style and factor investing with an increasing emphasis on low-fee beta exposure over the last 60 years. A prevalent investment behavior is the tendency to follow the path of least resistance, allocating capital to widely favored low cost investment products. While the funds' low fees are certainly beneficial to all participants in the investment community, low cost should not be the primary determination in allocating capital.

In the 1970s, separately managed accounts (SMAs) were developed to establish a more targeted vehicle to transfer the management of an institution or an individual's own existing basket of securities to a professional asset manager. SMAs can hold equities, bonds, and other securities and are not one size fits all like pooled fund vehicles. SMAs have now been democratized, and participation is more accessible in individual managed or wrap accounts. SMAs have previously been used by high net worth and institutional investors but are now offered to a wider audience with lower fees and less restrictive minimum requirements. Because SMA managers have historically worked with clients holding substantial assets, SMA managers are able to easily customize client accounts and experience.

*Although SMA investors forgo the board oversight of funds, they have a higher degree of portfolio transparency and a more personalized relationship with the portfolio management.*

Clients can see their underlying securities and review their performances as they hold individual securities in the account rather than shares of in a fund. While SMAs are not governed by a prospectus like funds, managers, who offer SMA, are required by the SEC to provide investors with an ADV, a public disclosure brochure, to define the advisory firm, fees, services, and products. Finding SMA managers is best done on professional databases or through financial advisors, investment firms, and other professionals. Selecting a manager depends on a review of their SEC registration, ADV, investment strategies, and long term track record. The SMA manager's size is not as important as their overall skill and discipline.

One of the important aspects of a SMA manager is the ability to construct individual portfolios. Recent research indicates that best practice in portfolio construction can be enhanced through a more active approach. Embracing security analysis rather fee exposure better promotes wealth creation. Investors benefit from a portfolio constructed through a disciplined valuation process, selectively holding securities in a portfolio based on returning capital to shareholders. Although SMAs may have fewer holdings than funds, research demonstrates holding twenty to forty positions diversifies risk.

SMA managers focus on investors' risk tolerances, values, and preferences. Risks can be addressed in meaningful ways such as position size, investment choice, and security valuation. Managers can review the relationship of holdings and are able to change positions around the margin to improve performance. This individual approach is usually favored by SMA investors, who seek the opportunity for better than market returns. With fewer securities than pooled vehicles, SMAs trading transaction costs are less frequent, saving investors trading fees and the possibility of bid/ask negative pricing spreads.

To focus on better investment choices, we believe investors need to understand their investments more thoroughly by returning to the fundamentals of each individual holding. This can be accomplished through SMAs as investment managers adhere to their unique investment philosophy and processes. By being disciplined, SMA managers can more dynamically adapt investor's portfolios to changing markets and individual risk preferences. With so much capital chasing highly profitable Technology stocks in passive funds the last few years, many investors may not be prepared for shifts in market dynamics or able to adequately capture persistent future profits and specificity of individual Technology companies. SMA managers may be nimbler in addressing such changes.

Martin Investment Management, LLC advocates a thoughtful, knowledge-based approach to investing. We prioritize long-term wealth creation and capital preservation though portfolios in separately managed accounts. We believe that boutique SMA managers represent an underutilized resource and offer clients a more personal, flexible, and transparent choice when it comes to investing.

*Disclaimer: This information is for illustrative purposes only and not to be construed as specific advisory recommendations.*

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