Discretionary Investment Accounts: The Pros and Cons

I've been attending night school. In fact, I just graduated with a new designation: Associate Portfolio Manager.

It's a title reserved for a select group of investment professionals. It requires advanced investment qualifications, as well as professional development. It's an especially rigorous evaluation process so only top advisors qualify as Portfolio Managers.

Why should you care? It's simple.

As a Portfolio Manager, I can manage a *discretionary account* on your behalf.

This type of account simplifies your life when it comes to investing and allows you to take advantage of buy and sell situations needing immediate action. With a discretionary account, you and your investment advisor will also have more time to chat about your priority personal financial concerns.

What the Heck is a Discretionary Account?

When you decide to switch to a discretionary account, you begin by agreeing to a personal investment policy statement. Your investment advisor prepares this document in consultation with you. It includes your investor profile, including important information such as your investment objectives, risk tolerance, and your time horizon to reach your objectives.

When it comes time to make changes to the investments in your portfolio, this policy statement guides your investment advisor's decisions on what investments to include.

For example, if you have a low-risk tolerance and need to preserve your capital, your investment strategy is capital preservation. Your portfolio includes cash equivalents or fixed income securities and funds. Any changes to this portfolio must be consistent with the agreed upon asset allocation.

At the opposite end of the strategy spectrum, you may want to focus on growth. In this case, equity securities and funds will make up the majority of your portfolio; any changes to this portfolio will be consistent with this asset allocation.

With a discretionary account, you delegate all ***investment*** decisions to your Portfolio Manager. These decisions include researching investment opportunities, selecting securities to buy and sell, and at what price.

In other words, you've given them the ***discretion*** to make decisions on your behalf as long as these investment decisions are consistent with your agreed upon investment plan.

Is a Discretionary Account Right For You?

With a **non-discretionary account**, security regulators require your advisor to call you for approval on trading decisions. If you prefer to have your advisor make these decisions for you, a discretionary account is a good choice, especially if you lead a busy life and trust your advisor's recommendations.

A **discretionary account** is likely the best approach if you've agreed with every buy and sell suggestion your advisor made over the last few years. By allowing them to act on your behalf, you'll make your life simpler and be able to take advantage of urgent buy and sell situations.

Consider an analyst who releases a negative research report about Company ABC. The company's stock then drops significantly in a matter of hours. For clients in a discretionary account, their portfolio manager can act quickly by selling Company ABC stock from their accounts.

If you invest in a non-discretionary account and are on vacation when the analyst releases their research report, you're out of luck. Your advisor won't be able to reach you ... and you won't benefit from this opportunity.

With non-discretionary accounts, your advisor may have 100 clients to call about selling their position in Company ABC. If you're number 95 on their call list, you might sell closer to the bottom of the stock price, rather than the top.

Many clients don't want to speak to their advisor about individual trades. If this sounds like you, you may prefer to replace those discussions with value-added financial advice. You'll find it more useful to chat with your advisor about paying down debt, saving for your children's education, or the best time to start taking your Canada Pension Plan.

Discretionary accounts aren't for every investor. You will need a minimum of $100,000 in investable assets. In addition, if you prefer to be involved in buy and sell decisions, you should stay in a non-discretionary account.

The Bottom Line

Fees in discretionary accounts are usually lower than non-discretionary portfolios. The former typically include fewer higher fee mutual funds and a greater number of individual securities. If markets rise while your investment fees decline, your overall returns should increase.

While discretionary accounts are not for every investor, they make sense if you meet the minimum asset threshold and want to delegate investment decisions to your advisor. You'll benefit from the trading agility the discretionary account provides. Your portfolio manager will be able to act quickly on money making buy or sell opportunities without calling for your approval.

Most importantly, you and your investment advisor will have more time to chat about the financial concerns at the top of your list.

If you're interested in learning more about discretionary investment accounts, **get in touch**.

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