Advantages of Managed Money – Fixed Income

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Institutional Pricing

The bond markets have undergone a dramatic transition since the credit crisis. Gone are the days of broker dealers and investment banks carrying large inventories to facilitate proprietary and client trading. Committed capital, a key factor in determining liquidity levels, is a fraction of what it was prior to 2007. The result is a challenge in sourcing bonds and getting favorable, consistent bids and offers. Institutional managers have always had an execution advantage over retail clients, but the divide today is wider than ever.

Ongoing Credit Research

Some of us remember when the need to do fundamental research on credits rated as investment grade was minimal. That has changed. Rapid downgrades and even defaults are not rare events any longer. Often without adequate resources or time to do ongoing credit research, individual advisors are at greater risk of holding credits that suffer significant price declines when their outlook deteriorates. Institutional managers have staffs of dedicated analysts that continuously follow the credits in their portfolios.

Consistency in Client Holdings/Portfolio Structure

Not all, but certainly a good portion of FAs do not have an overall portfolio structure in mind when investing for their clients. Purchases are more a function of what the desk has in inventory when the advisor needs to put money to work than a larger strategic plan. This often leads to inconsistency in portfolio holdings and structure from one client to another. Professional managers will implement a consistent strategy with similar holdings across client portfolios.

Purchase Period

A byproduct of thinner fixed income markets is that diligence and patience are required to find the right positions at the right prices. Attempting to get money into the market quickly risks poor execution. Professional managers can take weeks to fully invest a new account. That is more time than most advisors can commit to the task.

Time Savings

It takes time to find the right bonds at the right prices. It also takes time to execute trades, especially for non-discretionary clients. Time saved forgoing trading individual bonds for numerous accounts can be used to better serve clients and grow the advisor's business.