

# Investment ADVISOR

THE VOICE OF INDEPENDENTS

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## LETTERS

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### Rogaine for Estates: Avoid Heir Loss

CONSIDERING THAT THE results of the recent elections have thrown the repeal of the estate tax into even further jeopardy, the need for proper estate planning is more urgent than ever.

As advisors, it is our job to make sure that our clients' estates are properly positioned. While clients may avoid estate planning for fear of making irrevocable decisions, setting themselves up to run out of money, or negatively impacting their beneficiaries, we cannot allow emotional barriers to stand in the way of doing what is in our clients' best interests.

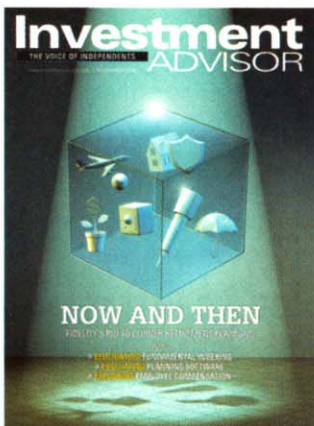
Quantify how much money clients need to live the lives that they want to live and help them identify the "extra money" that they have. There are planning techniques that allow clients to retain a high level of control over their money while removing a significant portion from their taxable estate. Finally, remind clients that with huge deficits and a lack of political momentum, an estate planning repeal is certainly not on the short-term horizon, thus making this the time to plan.

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#### AN SMA HEADSTAND

I very much enjoyed reading Savita Iyer's article ("Stepping Into the Great Wide Open, October 2006) on financial institutions seeking the right balance in their open architecture offerings.

Today's traditional SMA structure is expensive because it requires supporting a complex infrastructure to support account opening, account closing, account rebalancing, and special customization/tax requests. It is also relatively uncustomized because each outside manager only has knowledge of his or her own



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portion of the end investor's portfolio—which makes it difficult to provide holistic tax and risk management.

How can a sponsor firm turn the SMA process on its head?

The solution is for the sponsor banks to retain sole discretion over the account, but purchase the intellectual capital (model portfolios) of third party managers. The sponsor bank takes on the role of "overlay manager," combining the models of multiple third party providers and adding holistic tax, risk and expense management. Technology, such as is provided by our firm, Smartleaf, can aid the overlay manager with his or her tasks.

Overlay technology also enables a sponsor firm to switch managers without closing and opening a sub-account and without the need to liquidate positions; reduce compliance exposure by ensuring through daily monitoring that all accounts are managed to an Investment Policy Statement; and eliminate costly infrastructure. It also enables a sponsor bank to deliver on the promises of SMAs. Larger banks can now offer "more customized solutions" and smaller banks can now offer "more investment choices."

Both kinds of banks can now offer access to internal, structured products and external investment products, provide the highest level of service to clients at the most reasonable costs, and reconcile the demand for objective advice and the need for product excellence.

Overlay is proving to be the approach of choice of banks that are dedicated to offering cost-efficient, customized open architecture. I encourage your readers to consider the overlay option.

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