



# BREAKING WITH TRADITION

*Michael Crowe, Hendrie Group*

How managed accounts can create scale while enhancing the client experience and quelling volatility fear. **Kanika Sood** writes.

About 30 kilometres from Melbourne's central business district lies the suburb of Croydon. Described as the gateway to the Yarra Valley's wineries and chocolateries, Croydon is home to less than 30,000 people.

It is here that Hendrie Group senior financial adviser Michael Crowe has built his 200-strong client base for whom he now advises on a total of about \$155 million.

"The average client here is a pre-retiree in their 50s. Someone with their debt under control, who wants to get into a position financially to retire on their terms," Crowe says.

For the last 18 years, Crowe has enjoyed an eight minute commute to the Hendrie Group office, not far from his childhood home.

"Occasionally someone I know will come in looking for some help. The typical client isn't looking for anything special - they're usually just looking to get into a good financial situation."

## The switch

About five years ago, all of Crowe's investments for his clients were held in direct share portfolios or managed funds.

"Originally we would get a stock broker to do a portfolio of direct shares. The issue with that was that we didn't have the resources to get that reviewed often enough," Crowe says.

"It was a bit set and forget."

Hendrie Group, which also offers tax and accounting services, runs a tight team - there are only two advisers other than Crowe and both of them work part-time.

A broker would come once or twice a year to review the stocks held in the direct shares portfolio.



### The quote

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Despite this, Crowe says he never missed any big boats.

“After the GFC, many banks stocks were selling at a discount to the market. If we thought it was right for a client to buy more of those shares, we contacted them, did the Record of Advice and made changes to their portfolio,” he says.

However, with managed accounts the timeline for acting upon a corporate action shrinks significantly

Now via its managed accounts provider, an investment team that reviews holdings constantly and shuffles asset allocation as required; a much more agile means of managing investments.

A recent example was the Westfield/Unibail Rodamco deal. Crowe says the shares were expected to fall before the deal and the portfolio managers at his provider were able to switch the allocations, without the need for a RoA.

The decision to adopt managed accounts was a simple one for Hendrie Group as it was searching for a solution that would enable the business to grow while enhancing the client experience by way of greater one-on-one time.

Now that less of Crowe’s is time taken up by investment and administrative processes he is able to dedicate more of himself to clients, both existing and prospective.

“Our view is where we are adding value as financial planners is actually talking to clients about their goals. They want to see how they are tracking with their finances and objectives, monitoring their cashflows, savings and budgeting, and also making sure they’re across tax savings, estate planning, wealth protection and things like that,” he explains.

“For us, it made sense to outsource investments to fund managers because they do it on a daily basis and really are the experts at it.”

### The results

In crude dollar terms, Crowe admits that managed accounts are certainly costing Hendrie Group more than broker-run direct share portfolios.

“But they deliver much more in business efficiencies,” Crowe says.

Managing investments and paraplanning have become two key tasks that Hendrie Group outsources, he explains.

About half of the firm’s total clients are now in managed accounts and, in the five years since the switch, Crowe has swelled his client base by 30% with earnings having moved in line too.

“The big advantage has been that we have been able to spend more time dealing with clients. This means for our existing clients, we have been able to find new areas where we can add value,” he says.

“And we’ve been able to see new clients without having to put on more staff.”

It’s now been a long time since he recommended direct share portfolios to someone, Crowe says.

### Keeping it simple

Traditionally, managed accounts solely supported Australian equities.

Over the years, they have picked up other assets; ETFs exploded, international shares came on board and even property swaggered in

through listed structures. Cash hybrids, like fixed interest exposures and LICs, are available on investment menus now too.

The asset classes that managed accounts can now offer exposure to are relatively unlimited in a clear win over traditional portfolio structures, with teams of investment professionals shuffling money between different classes to juice out relative value.

Crowe however, likes to keep his clients' investments "as simple as possible".

He uses Australian and international shares as well as fixed interest investments, though mainly through short dated investments at the moment.

He will invest in term deposits and cash, and there may also be a small exposure to hedge funds and alternative assets.

"Certainly for some of our more sophisticated clients we might have exposure through illiquid assets, such as property syndicates," he says.

"But we try to keep things simple and invest in things that can be sold at any time."

### Navigating volatility

Crowe uses several platforms but his primary choice is Madison Financial Group's OneVue white label Wealth Portal.

"With our dealer group, we are quite lucky that we don't have a restriction on the platforms we can use, as long as the products are on the approved product list," he says.

In February 2018 when the Australian stock market plunged, Wealth Portal's investment committee sent advisers an email alerting them to the drop and providing their outlook on what could happen next.

"Then we sent out an email notifying our clients that the markets had dropped," he says.

"We told them this can happen when the markets have been performing very well. But we have a long-term plan in place and if you have any queries, please contact us."

Crowe received few enquiries, which he attributes to clear communication with clients on their long-term goals and the structures in place. It also helps that the underlying investment teams offer great insight as to their process.

"The investment committee sends us regular updates on what they are doing in regards to asset allocation. There wasn't a significant change at the time, but if the market were to fall a bit further, there would have been some potential buying opportunities," he reflects.

### So, why aren't managed accounts the new norm?

Managed accounts give advisers access to investment professionals and can move quickly to protect investor capital.

But why are so few advisers embracing managed accounts? And what can platforms do to win more business from advisers?

"First, the fees would have scared some advisers off but they are certainly becoming quite competitive now," Crowe says.

"Alternatively, they might be using platforms that don't offer managed accounts or be restricted as to what they can recommend under their dealer group's APL."

"For some it will be a lack of understanding of how managed accounts work. Then there are those advisers who have the resources to arrange their own portfolio and that might be where they believe they can add more value," he says.

Advisers' reluctance to use managed accounts may also come down to much simpler reasons— they just don't work for a client.

Acknowledging they may not be a silver bullet for all, Crowe notes where managed accounts don't stack up: smaller balances and savings plans.

"In most cases the balance we like to see to put someone in a managed account is \$150,000," he says.

For context, the balances of Crowe's clients range from \$50,000 to \$6 million.

"I also think they generally don't work well when you're trying to put a savings plan in place for someone. I would just use managed funds for that and allow the money to grow over time," he says.

Clients may also choose to stay in direct share portfolios to keep the fees low if they believe their level of service on corporate actions is sufficient, he explains.

### Managed accounts wish list

Ask Crowe what changes he would like to see in the managed accounts space and fees are quick to come up again.

He says Hendrie has been charging dollar-based fees for about five years now. This may be drawn through a client's bank account, super account or from within the cash account of the managed accounts platform. This would be decided depending on how drawing the fee would impact tax deductibles and the clients' cashflow.

As the technology has improved over the last decade, providers have pulled down fees – both the platform fee and the fund manager fee.

"My hope, and what I think we are likely to see more of, is the platforms making managed accounts more cost-efficient," he says.

Overall, managed accounts have helped Crowe do more, with limited resources.

"Don't get me wrong, as a financial adviser we need to understand a lot about investments.

"We have to understand a lot about funds managers and direct shares but we believe that in a lot of cases – and a lot of financial advisers think the same -- there are other people who have more knowledge in the area," he says.

"So let them do that and I promise it will make a world of difference." **FS**



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