

Opinion

Challenge of the Unified Managed Household

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The Unified Managed Household (UMH) has represented the Holy Grail for some advisory firms for at least the past 15 years. Broadly defined, a UMH is a group of separate custody accounts that are related by some common feature, such as family membership. Ideally, these accounts will be aggregated for functions such as asset allocation, performance measurement, reporting and possibly taxation.

The concept has an immediate intuitive appeal for both the client and the advisor. For the advisor, it should simplify operations and makes an argument for controlling more of a client's assets. And the UMH should give investors – possibly for the first time – a comprehensive view of the total risk and return of their aggregate portfolio.

Appropriately, senior designers of these platforms focus on nice-to-have features like flexible drift reports, completion accounts and custom client reporting. Their model is often similar to the type deployed by a family office, where some version of the UMH has been loosely administered for years. These programs use disparate technologies involving a high degree of manual intervention. But a lesson that is often quickly learned is that what works in the boutique family office model can be much harder to implement in more commoditized wealth management markets.

In the mass affluent market, advisors find that a simple and obvious idea is inhibited by a few seemingly prosaic but so far insurmountable issues, including multiple ownership, account aggregation, and systems.

Allocating across accounts involving multiple ownership can cause legal and compliance issues. To take one example: household accounts are due for a global rebalance. How do you efficiently and legally reallocate assets from single ownership to joint ownership, from an IRA to a non-qualified account, from a 401(k) to a standard brokerage account, and so forth? This can be a very challenging task that demands dedicated technology resources – resources that some firms just don't have today.

Assuming you can eliminate the legal and compliance obstacles, account aggregation can be another issue. Let's keep it simple and look to standard brokerage accounts with segregated ownership (fully disclosed). If the accounts are held at traditional correspondent clearing firms, like a **Pershing** or a **Charles Schwab**, then a direct custody connection can be obtained – making it possible to electronically aggregate assets into one common household via an overnight download process. However, if the assets are held at some institutions, such as wirehouses and private banks, such a download is not available to a third-party that can deliver on the account aggregation promise.

The aggregators – the third-party firms that specialize in assembling financial data from disparate sources – have countered this through a process known as “screen scraping.” But this process is strongly discouraged by some firms for security reasons and can be fraught with errors. Consequently, if data accuracy is a concern for investors, they can never be certain at any given point that their data is more than directionally correct – meaning they may not know what their account balance is – if any of their accounts are custodied at firms that do not allow an electronic download.

Another aspect of the aggregation problem is the case where investments are held away in omnibus custody accounts such as defined contribution plans or variable annuities – an increasingly popular product these days. (Omnibus accounts are groups of individual clients that brokerages and banks combine to achieve improved efficiencies in trading and to reduce expenses.) Connectivity issues aside, these accounts are not always updated daily and the individual assets are not segregated at the custody level. So again, if investors are looking for an accurate, daily valuation, this is going to be hard to achieve if assets are held in omnibus custody accounts.

Beyond allocation and data aggregation issues, there is still the formidable task of finding the correct middle- and back-office solution. There are systems and approaches that can handle many of these issues at scale, but rarely in one unified platform. Many of these problems are industry issues rather than technological ones. Given the number of industry induced workarounds required to achieve a viable platform, the successful middle- and back-office provider will require not only updated and reliable technology and operations but also experts who can find creative methods to solve intractable problems.

Still, some version of the UMH has to emerge over time. For a variety of very compelling reasons that impact both the advisor and the investor, the market has been crying for some version of this solution for a long time already. The firm that can deliver this will have found the advisory version of the Holy Grail.

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