

# The Direct Indexing Debate: SMA vs Adhesion UMA

## The Adhesion Difference

Direct Indexing within a Unified Managed Account (UMA) provides a promising solution for clients seeking both the benefits of an indexing approach and the ability to tailor their investments based on unique financial, emotional, or value-based needs, offering a balance between personalization and scalability. Adhesion offers a sophisticated solution within a UMA designed to support the practice of Advisors looking to add value to their clients' portfolios by offering flexibility, scalability, and simplicity. The alternative—Direct Indexing within an SMA—is often cumbersome and lacks the flexibility that allows advisors to go the extra mile for their clients and achieve Advisor Alpha.

## Why a Unified Managed Account (UMA)?

A Unified Managed Account removes the need to have more than one account and combines all of the assets into one account with a single registration.

Unified Managed Accounts enable the delivery of customizable investment solutions for your clients - and the economics are a potential win-win. UMAs can offer a flexible account structure to create the right portfolio solution for each client, in a highly scalable way.

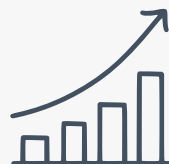
## When SMAs Are Not Enough

Traditional SMAs suffer from several shortcomings that hinder their ability to meet clients' needs effectively. SMAs often lack alignment with client needs due to their inflexibility in addressing unique factors such as income levels, risk tolerance, or concentrated positions, all of which require a tailored approach.

The potential for overlapping holdings within SMAs increases concentration risks and reduces diversification. Moreover, the difficulty in incorporating tax optimization on an individual client basis limits the effectiveness of tax management strategies like tax-loss harvesting. These limitations of traditional SMAs highlight the need for a more customizable and flexible solution.



**Demonstrate  
Value**



**Scale Your  
Practice**

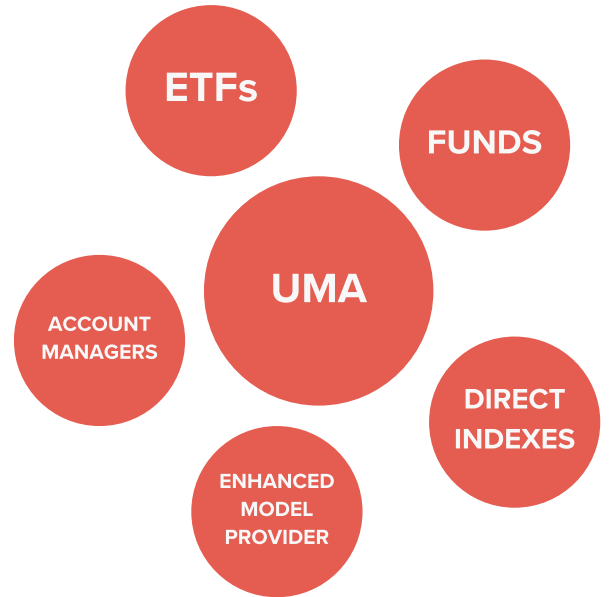


**Simplify  
Assets**

## The Potential Benefits of Direct Indexing within an Adhesion UMA

Direct Indexing within an Adhesion UMA offers the following potential benefits to RIAs:

- 1 Enhanced Customization:** Direct indexing within a UMA offers a higher level of customization compared to SMAs. RIAs can align client portfolios with their unique financial goals, values, and preferences by tailoring factors such as income level, volatility. This level of customization allows RIAs to address their clients' specific needs more effectively.
- 2 Tax Efficiency:** Direct indexing within a UMA with sophisticated tax management strategies like tax-loss harvesting and gains deferral can generate tax efficiencies. By holding individual securities, RIAs can strategically sell specific holdings to generate losses for tax purposes while maintaining desired market exposure. This approach can help optimize after-tax returns and reduce tax liabilities for clients.
- 3 Transparency:** Direct indexing within a UMA, RIAs can provide greater transparency to their clients. Unlike SMAs, where investors typically receive periodic reports on the overall portfolio, direct indexing allows clients to see the underlying individual securities held in their accounts. This transparency fosters trust, as clients have a clear view of the specific companies they are invested in.
- 4 Cost Efficiency:** Direct indexing within a UMA can offer cost advantages over traditional SMAs. By bypassing the expense of mutual funds or ETFs used in SMAs, direct indexing allows RIAs to potentially reduce investment costs for their clients. Furthermore, by holding individual securities directly, RIAs can potentially avoid double layering of fees associated with funds used in SMAs.
- 5 Scalability:** Direct indexing within a UMA can offer scalability benefits to RIAs. By leveraging technology and automation, RIAs can efficiently manage a larger number of client accounts while maintaining a high level of customization. This scalability allows RIAs to serve a broader client base effectively.
- 6 Client Satisfaction:** Direct indexing with a UMA provides RIAs an opportunity to deliver a personalized investment experience that aligns closely with their clients' values and preferences. By offering a highly customized investment approach, RIAs can enhance client satisfaction, deepen relationships, and differentiate themselves in a competitive market.



FOR FINANCIAL PROFESSIONAL USE ONLY. Adhesion Wealth Advisor Solutions, Inc. ("Adhesion Wealth") is an investment adviser registered with the U.S. Securities and Exchange Commission. Registration does not imply a certain level of training or skill. Investing in securities is subject to inherent investment risks, including the potential loss of principal. Adhesion Wealth does not provide personalized investment or tax advice. Where information or data is presented that has been prepared by third parties, the source of such information will be cited, and these sources have been deemed to be reliable; however, Adhesion Wealth does not warrant or independently verify the accuracy of this information. Adhesion Wealth and any such third parties are separate and unaffiliated and are not responsible for each other's policies, products, or services. Reproduction in whole or in part in any form or medium without express written permission is prohibited. "Adhesion Wealth" is a registered trademark. Other trademarks contained herein are the property of their respective owners. Adhesion Wealth believes that the information in this publication is accurate as of its publication date; however, such information is subject to change without notice. © 2020 Adhesion Wealth Advisor Solutions, Inc. All rights reserved.

UMAs are not suitable for all investors and should be evaluated for suitability by their Financial Professional prior to investing.