Same Investment Goal, Different Starting Point: The Case for SMAs

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Key Takeaways

- Separately managed accounts (SMAs) can give investors greater control over individual holdings, allowing portfolios to account for existing positions, security restrictions and individual circumstances.
- Direct ownership of individual securities can create more targeted opportunities for tax-loss harvesting and managing when capital gains are realized.
- SMAs should be evaluated within the broader portfolio to understand their overlap, exposures and contribution to overall portfolio risk.

Two clients can share the same investment objective and need very different paths to reach it. One arrives with cash. The other brings concentrated stock, years of embedded gains and holdings across several accounts. Their target allocations may look similar. The decisions required to get there will differ.

That is where separately managed accounts (SMAs) get interesting. In our portfolio consultation work with advisors, we focus on how investment strategies fit together and serve the client's objectives. SMA implementation adds another dimension: the flexibility to account for existing holdings, restrictions and tax circumstances.

The industry's growth makes this increasingly relevant. Cerulli reports that SMA programs attracted $218.4 billion in net flows in 2024 and posted an 18.3% five-year annualized asset growth rate.[1] Those figures give advisors a reason to examine where SMAs fit within their practices.

Start with the Client's Existing Portfolio

Clients own the underlying securities directly in an SMA. That ownership allows the account manager to tailor implementation around individual circumstances.

Consider a client with substantial employer stock accumulated through restricted stock units. Adding an equity fund may increase exposure to that company. An SMA can exclude the security and adjust remaining holdings around the existing position.

Appreciated securities present a similar challenge. An advisor may have a clear target allocation, but selling everything immediately could create a significant tax bill. Retaining everything could preserve exposures that no longer serve the client's objectives.

We think this transition deserves more attention. The starting portfolio is a central input to the investment decision. An SMA manager's ability to incorporate existing holdings and build toward an intended allocation over time can be an important consideration.

Keeping appreciated positions or excluding securities can affect concentration, factor exposures and tracking error. Those trade-offs deserve attention when evaluating the resulting portfolio.

Keep Investment Strategy Central to Personalization

Direct indexing provides one application of this flexibility. FTSE Russell's 2026 survey found that 41% of surveyed advisors use direct indexing with clients, up from 33% in 2025.[2]

As adoption grows, advisors should be precise about what they are personalizing. Direct indexing generally delivers index-based exposure through individual securities, adjusted for client circumstances. The broader SMA universe includes actively managed strategies and other investment approaches.

That distinction matters when evaluating providers. Alongside security exclusions and tax management, we believe advisors should examine the available strategies, their exposures and their intended portfolio roles.

An advisor may want a particular dividend approach, factor exposure or international allocation. The SMA should support that investment objective alongside the required customization. Strategy selection and account-level implementation should work together.

Tax Management Begins with the Client's Circumstances

Individual security ownership creates opportunities to harvest losses even when the overall portfolio has appreciated. Losses in some holdings may coexist with gains elsewhere.

The potential tax benefit depends on the client's circumstances, including tax rates, existing holdings and capital gains available to offset. Account-specific analysis is therefore more useful than a broad assumption about "tax alpha."

This is where Quorus, a technology-enabled asset manager providing custom, tax-managed separate accounts, enters the conversation. Its account-level implementation capabilities include tax-loss harvesting, managing gain realization and transitioning appreciated holdings within a capital gains budget.

These capabilities help align implementation with the client's tax circumstances. Quorus handles that account-level management. Our role within WisdomTree's Portfolio Solutions team is to help advisors evaluate investment exposures and how an SMA fits into the broader portfolio.

Evaluate the Whole Portfolio

FTSE Russell found that 87% of surveyed advisors agree direct indexing is a valuable tool for coordinating investment and tax management across household accounts.[3]

That finding reinforces the importance of looking across a client's holdings.

An SMA can look appropriate individually and introduce unintended exposures alongside ETFs, mutual funds and other investments. Different strategies may own the same companies. A restriction in one account may leave substantial exposure elsewhere.

In our portfolio consultations, we examine the combined investment picture: overlapping holdings, sector and regional allocations, underlying fundamentals and contributions to risk. That analysis helps advisors understand what an SMA adds and where it may duplicate existing exposures.

WisdomTree's Portfolio Consultation service helps advisors assess asset allocation and underlying investments. Comparing representative SMA strategies, subject to available data, adds another useful input. Advisors retain implementation decisions while gaining a clearer view of portfolio fit.

Make Implementation Part of the Decision

FTSE Russell found that 59% of surveyed advisors report challenges integrating direct indexing into their technology stack, while 86% want to expand their knowledge.[4]

We see a reason for advisors to evaluate the support surrounding the strategy. Questions about onboarding existing holdings, applying restrictions, monitoring tax budgets and managing ongoing trading belong with the implementation provider. Understanding exposures and portfolio fit is where our consultation team can help.

The opportunity starts with a specific client need. From there, advisors can evaluate the strategy, determine the customization and assess the total portfolio. Clear responsibilities across advice, portfolio analysis and account management help turn that personalization into a practical client experience.

Continue the Portfolio Solutions Conversation

Want to explore more ways to strengthen portfolio construction and address evolving client needs? Join us for the **WisdomTree Portfolio Solutions Summit 2026**, a virtual event focused on portfolio construction, investment strategy and practice management.

Register for the Portfolio Solutions Summit 2026 here.

[1] Ryan Nauman, "SMAs Emerge as Wealth Management's Next Frontier," *WealthManagement.com*, August 17, 2026. https://www.wealthmanagement.com/smas/smas-emerge-as-wealth-managements-next-frontier.

[2] FTSE Russell, “Direct Indexing Is Becoming a Core Capability for Wealth Managers, FTSE Russell Survey Finds,” *LSEG*, September 9, 2026. https://www.lseg.com/en/media-centre/press-releases/ftse-russell/2026/ftse-russell-direct-indexing-survey-2026.

[3] Adam Gebler and Mike DiSanti, “From Niche to Necessary: Direct Indexing Joins the Mainstream,” *LSEG*, September 15, 2026. https://www.lseg.com/en/insights/ftse-russell/from-niche-to-necessary-direct-indexing-joins-the-mainstream.

[4] FTSE Russell, 2026, September 9.

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