



## How Wealthy People Use Professional Money Management

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Provided to you by:

**Scott T Etzel**

CRPC®



# How Wealthy People Use Professional Money Management<sup>1</sup>

Written by Financial Educators

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***Disclosures:***

Converting an employer plan account or Traditional IRA to a Roth IRA is a taxable event. Increased taxable income from the Roth IRA conversion may have several consequences including but not limited to, a need for additional tax withholding or estimated tax payments, the loss of certain tax deductions and credits, and higher taxes on Social Security benefits and higher Medicare premiums. Be sure to consult with a qualified tax advisor before making any decisions regarding your IRA. Investors should consult with their own professional advisor regarding the potential tax, estate, and legal considerations that may arise in connection with entering into a life settlements transaction.

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Proceeds from a life settlement transaction may be taxable under federal or state law to the extent the proceeds exceed the cost basis. The proceeds from a life settlement transaction may be subject to claims of creditors. The receipt of proceeds from a life settlement transaction may adversely impact eligibility for government benefits and entitlements. The amount received for the sale of the Policy may be impacted by the circumstances of the particular purchaser of the Policy, the insured's life expectancy, future premiums, the death benefit, the terms of the Policy, and the current market for insurance policies, among other factors. The amount received for the sale of the Policy may be more or less than what others might receive for the sale of a similar policy. There may be high fees associated with the sale of a Life settlement.

Indices are unmanaged and investors cannot invest directly in an index. Unless otherwise noted, performance of indices does not account for any fees, commissions or other expenses that would be incurred. Returns do not include reinvested dividends.

The S&P 500 Index is a market capitalization-weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent US equity performance.

The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 actively traded "blue chip" stocks, primarily industrials, but includes financials and other service-oriented companies. The components, which change from time to time, represent between 15% and 20% of the market value of NYSE stocks.

The Russell 2000 measures the performance of small capitalization U.S. stocks. The Russell 2000 is a market-value-weighted index of the 2,000 smallest stocks in the broad-market Russell 3000 Index.

Fixed Annuities are long-term insurance contracts, and there is a surrender charge imposed generally during the first 5 to 7 years that you own the annuity contract. Indexed annuities are insurance contracts that, depending on the contract, may offer a guaranteed annual interest rate and some participation growth, if any, of a stock market index. Such contracts have substantial variation in terms, costs of guarantees, and features, and may cap participation or returns in significant ways. Investors are cautioned to carefully review an indexed annuity for its features, costs, risks, and how the variables are calculated. Any guarantees offered are backed by the financial strength of the insurance company. Surrender charges apply if not held to the end of the term. Withdrawals are taxed as ordinary income and, if taken prior to 59 ½, a 10% federal tax penalty.

Neither Asset Allocation nor Diversification guarantees a profit or protects against a loss in a declining market. They are methods used to help manage investment risk.

Fixed Annuities are long-term insurance contracts, and there is a surrender charge imposed generally during the first 5 to 7 years that you own the annuity contract. Withdrawals prior to age 59-1/2 may result in a 10% IRS tax penalty, in addition to any ordinary income tax. Any guarantees of the annuity are backed by the financial strength of the underlying insurance company.

Risk tolerance is an investor's general ability to withstand the risk inherent in investing. The risk tolerance questionnaire is designed to determine your risk tolerance and is judged based on three factors: time horizon, long-term goals and expectations, and short-term risk attitudes. The adviser uses their own experience and subjective evaluation of your answers to help determine your risk tolerance. There is no guarantee that the risk assessment questionnaire will accurately assess your tolerance to risk. In addition, although the advisor may have directly or indirectly used the results of this questionnaire to determine a suggested asset allocation, there is no guarantee that the asset mix appropriately reflects your ability to withstand investment risk.

Neither Asset Allocation nor Diversification guarantee a profit or protect against a loss in a declining market. They are methods used to help manage investment risk. Etzel Financial Resources, Inc. does not offer legal or tax advice. Please consult the appropriate professional regarding your individual circumstance. Asset protection plans should be developed and implemented well before problems arise. Due to the fraudulent transfer laws, asset transfers that occur close in proximity to the filing of a lawsuit or bankruptcy can be interpreted by the court as a fraudulent transfer. Proper structuring of these assets is imperative. Please seek proper legal and tax advice prior to engaging in re-titling/structuring of any assets. Please note that laws are subject to change and can have an impact on your asset protection strategy. Pursuant to requirements imposed by the Internal Revenue Service, any tax advice contained in this communication (including any attachments) is not intended to be used, and cannot be used, for purposes of avoiding penalties imposed under the United States Internal Revenue Code or promoting, marketing, or recommending any tax-related matter to another person. Please contact us if you wish to have formal written advice on this matter. Not associated with or endorsed by the Social Security Administration, Medicare or any other government agency. Maximizing your Social Security Benefits assumes foreknowledge of your date of death. If as an example you wait to claim a higher monthly benefit amount but predecease your average life expectancy, it would have been better to claim your benefits at an earlier age with reduced benefits.

***Mutual Funds and Exchange Traded Funds (ETF's) are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from the Fund Company or your financial professional. Be sure to read the prospectus carefully before deciding whether to invest. An investment in the Fund involves risk, including possible loss of principal.***

<sup>1</sup> Many Households That Own Mutual Funds Have Moderate Incomes, Investment Company Characteristics of Mutual Fund Investors 2022

<https://www.ici.org/system/files/2022-10/per28-10.pdf>. Alternatively, only 1% of respondents worth \$5 million to \$10 million invest in mutual funds...among those worth \$20 million or more, NONE invest in mutual funds... Study by Prince and Associates, <http://blogs.wsj.com/wealth/2007/06/12/how-the-rich-invest>. Sites visited 12/8/25.

# Introduction

Just as surgeons don't operate on themselves, wealthy people usually do not invest their own money. They have investment professionals manage their money for them.

In this booklet, we will discuss three types of professional money management and the differences between each. We will look at mutual funds, exchange traded funds and separately managed accounts, and the pros and cons of each.

# Mutual Funds

There are many reasons why people select Mutual Funds in their own portfolios. Here are some of the most common reasons:

## Advantages

Mutual funds are suitable for the small investor because most accept small investment amounts, typically \$2500 or less. Secondly, mutual funds offer liquidity with the ability to add or withdraw from your account at the end of any day. Additionally, the money is invested by an individual or team of individuals who are typically experienced investors, have a tested investing methodology, and have typically earned the Chartered Financial Analyst credential. This is a rigorous program of study, far more comprehensive than the exams a financial advisor or investment advisor must pass. So far, mutual funds appear to be an easy investment for any type of investor.

Maybe most important is diversification. Mutual funds may have from 30 to 500 different stocks in the fund thereby diversifying your money and potentially reducing risk to your principal. Should a couple of companies in the mutual fund do exceptionally poorly; the poor performers will not have a large impact on a big portfolio (note that diversification does not ensure a profit or guarantee against loss.) However, there are investors who would prefer not to use mutual funds as explained under the disadvantages section.

## Disadvantages

**Fees:** One of the often cited complaints about mutual funds is that of heavy fees. A summary of costs from various research studies calculated the average cost of owning a domestic equity fund at 3.52% annually in a non-taxable account. This does not include the cost of any front end or back end cost, redemption fees or 12b-1 fees<sup>2</sup>. A University of California Study concluded lower annual costs of 2.63%<sup>3</sup>

**Turnover and Taxes:** Closely related to the issue of high fees is the issue of portfolio turnover and income taxes. (Please consult with a tax advisor as the information below is a general discussion). The turnover rate (frequency of purchases and sales) in a fund is not necessarily a bad thing but it does increase your tax bill if the fund is selling stocks with lots of short-term gains. Additionally, turnovers cost you money. If turnover does hurt a fund's return, wouldn't there be a correlation between a fund's turnover rate and its after-tax return? Indeed there is!<sup>4</sup>

To optimize your mutual fund returns, or any investment returns, know the effect that taxes can have on what actually ends up in your pocket. Mutual funds that trade quickly in and out of stocks can have what is known as "high turnover." While selling a stock that has moved up in price does lock in a profit for the fund, this is a profit for which taxes have to be paid. Turnover in a fund creates taxable capital gains, which are paid by the mutual fund shareholders.

The SEC requires all mutual funds to show both their before- and after-tax returns. The differences between what a fund is reportedly earning, and what a fund is earning after the investor pays taxes on the dividends and

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<sup>2</sup> US News 3/4/15 "The Mutual Fund Fees We Don't Talk About,"

<https://money.usnews.com/money/blogs/the-smarter-mutual-fund-investor/2015/03/04/the-mutual-fund-fees-we-dont-talk-about>. Site visited 12/8/25

<sup>3</sup> UC Davis Of 1,758 mutual funds analyzed from 1995 through 2006, the average annual expenditures on trading costs, or aggregate trading costs, were 1.44 percent, while the average expense ratio was 1.19 percent. <https://www.ucdavis.edu/news/mutual-funds-have-invisible-costs> visited 12/8/25

<sup>4</sup> Taxes are one of the most significant costs of investing in mutual funds through taxable accounts. The SEC estimates that more than two and one-half percentage points of the average stock fund's total return is lost each year to taxes.

<https://www.federalregister.gov/documents/2001/02/05/01-2063/disclosure-of-mutual-fund-after-tax-returns>. Visited 12/8/25.

capital gains, can be tangible. If you plan to hold mutual funds in a taxable account, please check out these historical returns in the mutual fund prospectus to see what kind of taxes you might be likely to incur.

If you would like to know if your funds have high turnover and resulting high tax impact, please call for a free analysis on the funds you own. Next we have the issue of style drift.

**Style Drift:** Included in this topic of the fund-holding securities, what you may not want to own is the issue of style drift. For example, one might invest in a value fund which focuses on large “blue chip” companies selling at modest price-earnings ratios. But the fund manager may get tempted by the fast increase in Internet stocks and start allocating the fund's money into these investments. You can avoid this problem of style drift by using funds that can never vary from their stated style in the prospectus.

**Derivatives:** Did you know some funds might borrow money to buy securities? Are you comfortable knowing that these funds may borrow money (in an effort to buy more stocks and enjoy gains), which could magnify losses if the market falls? Do you know if your fund uses volatile derivatives in order to boost returns? Derivatives are financial instruments, whose up and down price movements are based on the movements of an underlying security, such as a stock or bond. However, the derivative's volatility is usually greater. If the stock moves 10% in value, the derivative could move even more. These issues are mentioned in your fund's prospectus, but you may not know that your fund can be volatile until your fund's semi-annual report. The use of leverage by mutual funds can significantly increase a fund's volatility, so low-risk investors may want to avoid funds that trade derivatives.

**Trading Limitations:** Note that unlike a stock, you cannot buy or sell open-end fund shares in the middle of the trading day. While the once-per-day trading limitation may seem fine to you, more active traders desire to trade in the middle of the day and also to sell short to capitalize on market movements. While we will not discuss short-selling in this pamphlet, mutual funds cannot be sold short and there are no puts or calls on mutual fund shares.

**Commingling:** Last, is the potentially negative issue that your money is commingled with the money of other investors. When the market declines, if other investors in the mutual fund get nervous and take their money out of the fund, this forces the fund manager to sell securities in the fund. The sale is necessary to get the cash to send to the fund investors. So while you may view a decline as an opportunity to buy, your fund manager cannot do so as he is forced to sell to meet redemptions of the nervous investors.

## Exchange Traded Funds (ETFs)

ETFs were developed to mitigate the disadvantages of open-end mutual funds, covered previously.

First, the shares provide diversification just as do open-end mutual funds in that they often track an entire index, such as the S&P 500 index. Therefore, one could argue that this is similar to owning the 500 shares in the S&P index.

Secondly, ETFs' shares are traded on the stock exchange. This means that the shares can be bought or sold at any time during the day like any share of stock. A more active trader finds this flexibility appealing as open-end mutual funds shares can only be bought or sold at the end of the day. Moreover, ETFs' shares can be sold short and many have puts and calls traded on them, thereby enhancing their appeal for an active investor.

Next, more sophisticated investors are typically sensitive about fees. Because many ETFs track an index, the holdings within the ETF rarely change. Because there are few changes, there is no need for an active manager, and as a result, the cost to manage the fund and the fees to the investor are much smaller. As Kiplinger summarizes, "...for the cost-conscious investor who plans on holding his investments for a while, ETFs may be one way to

reduce their fees, allow for more nimble trading and reduce their taxes compared with their mutual fund cousins."<sup>5</sup> Do note that to trade ETFs, the investor pays a commission for the transaction.

Closely related to the previous paragraph is the mentioned low turnover. Because there is very little buying or selling of shares, there is a very small tax impact to the investor. In the illustration of an ETF which tracks the S&P 500 index, all holdings in the ETF are typically held for more than a year, so when a sale does occur, it is a long-term sale resulting in a long-term capital gain or loss. Long-term capital gains are taxed at preferential rates as are qualifying dividends from the shares in the fund.

An ETF, like an open-end mutual fund, has many investors money commingled. Some investors would like to have their portfolio managed separately and thereby gain ultimate tax control from the timing of purchases and sales. That opportunity is provided by separately managed accounts.

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<sup>5</sup> Kiplinger <https://www.kiplinger.com/investing/etfs/602576/etfs-vs-mutual-funds-why-investors-who-hate-fees-should-love-etfs> Visited 12/8/25

# Separately Managed Accounts

Separately managed accounts go by several names in the securities industry such as wrap accounts, individually managed accounts, fee-based accounts, managed accounts – and they were originally an offering available to the wealthiest of investors – typically having \$1 million or more in a portfolio.

However, investment managers and brokerage firms, using technology, have been able to offer separately managed accounts to investors of more modest means. Let's take a look at the advantages.

## **Individual cost basis**

Because each security in the account is your own security and belongs only to you, you know how much it was purchased for, and prior to sale, you know how much the taxable gain will be. This permits you to instruct the manager to avoid taking profits at times when it may be bad for you from an income tax standpoint. If you own shares in a mutual fund, you simply get a 1099 form at the end of the year outlining how much you have to report to the IRS. Surprise!

Because you have an individual cost basis in each security, not only can you manage the gains and losses within that portfolio, you can manage your overall tax situation. Let's assume you sold a piece of real estate and have a profit. You may ask your separate account manager to sell some stocks with losses before the end of the year; thereby recognizing those paper losses to save you tax dollars.

To take the tax issue a step further, you may not have realized that when you buy a mutual fund, there may be embedded capital gains. This means that the fund has already made sales, captured profits, and at the end of the year – even though you are a new shareholder – you will be forced to pay your share of the tax on the gains that occurred prior to you becoming a shareholder. With a separately managed account, you never have this embedded capital gains issue.

## **Personalization**

If you have specific social convictions, such as the avoidance of tobacco stocks, you can provide that instruction to your separate account manager. Unlike a commingled account, your wishes within reason can be reflected in your investment account.

Because separately managed accounts can be offered for as little as \$100,000, for your \$300,000, you could have three different professional managers. Each manager could focus on a separate financial goal you have, a goal that matches the selected manager's expertise.

## **Transparency**

Separate accounts provide you with comprehensive performance reporting and full disclosure of all costs. Unlike a mutual fund that does not tell you how much you profited or lost for the year or what the fund holds at any time, you will receive a quarterly report that shows your gain or loss clearly with all costs clearly indicated. Because most separately managed accounts are available to view on-line, you can check on your holdings 24 hours a day.

## **Fees**

Mutual funds often charge sales loads, management fees and service fees while separately managed accounts typically charge an all-inclusive "wrap" fee.<sup>6</sup>

## **Discipline**

Possibly the most valuable feature of a separate account manager is their investment discipline. These managers typically have an investment model that tells them what to buy and sell and when to buy and sell it. They do not react to every news story as some individual investors do. It's this discipline that many wealthy investors feel separate them from those who have not been as financially successful.

## **Caution**

Some separately managed accounts invest in mutual funds or other registered investment companies and may thereby subject the investor to 2 sets of fees: the advisory fee for the separately managed account itself plus the management fees and expenses of the underlying registered investment companies.

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<sup>6</sup> MFS Investment Management, "Is a Separately Managed Account for You?"  
<http://kovackadvisors.com/ka/Presentations/MFS%20Whitepaper%20-%20Is%20a%20SMA%20for%20you.pdf> visited 12/8/25

## Comparing the Features

	Mutual Funds	ETFs	Separately managed account
<b>Investment Objectives</b>	Fund owner typically desires passive involvement. Investor objectives can be income, growth or any combination thereof	Fund owner typically desires passive involvement - may desire sector focus as ETFs are available with niche security holdings, equity, growth, combination, speculation, inverse or leveraged performance and shorting	Investor desires higher degree of personalized service with objective of income, growth or combination thereof
<b>Costs</b>	Available in load and no load varieties. Load varieties may contain front end or back end fees and/ or continuous marketing fees as well as management fees	Each transaction to buy and sell ETF shares incurs a commission	Usually no start up or redemption costs
<b>Expenses</b>	Actively managed mutual fund investors pay an average of 3.01% in annual fees <sup>7</sup>	Operating expenses are lower than mutual funds <sup>8</sup>	Typically a wrap fee of 1% to 3% annually
<b>Ownership</b>	Investor owns shares in a pool of securities, commingled with assets of other investors	Investor owns shares in a pool of securities, commingled with assets of other investors  Identical for all investors	Investor owns individual securities
<b>Portfolio holdings</b>	Identical for all investors	Purchase or sell shares to another investor during market hours	Based on a stated investment discipline but may be customized to a limited extent (usually by excluding specific holdings)
<b>Liquidity</b>	Purchase or sell shares to/from the fund any day	Typically ranges from \$500 to \$2,000 per fund	Securities in portfolio can be sold during market hours
<b>Minimum investment</b>	Typically ranges from \$500 to \$2,000 per fund		Typically \$100,000 per account

<sup>7</sup> Wealthfront <https://www.wealthfront.com/research/mutual-fund-fees>, visited 12/8/25

<sup>8</sup> Forbes "What's The Difference? Mutual Funds And Exchange Traded Funds Explained"

<https://www.forbes.com/sites/feonlyplanner/2013/07/18/whats-the-difference-mutual-funds-and-exchange-traded-funds-explained>, visited 12/8/25

## Comparing the Features (cont.)

	Mutual Funds	ETFs	Separately managed account
<b>Tax basis</b>	May include embedded capital gains going back months or years before investor bought shares - investors pays capital gains tax on his share of the fund each year	Basis is original price paid. Capital gains/loss tax on an ETF is incurred only upon the sale of the ETF by the investor	Basis is original price paid for each security. Capital gains/loss tax on individual securities is incurred only upon the sale in the account
<b>Tax management</b>	Under sole control of portfolio manager	Potential for client and his or her financial advisor to manage taxation of gains by timing sales. Potential for unqualified dividends taxed at higher rates.	Potential for client and his or her financial advisor to manage taxation of gains
<b>Safety and Guarantees</b>	Will fluctuate with the market. Some funds may offer principal guarantees for extra cost.	Will fluctuate with the market- may incur loss	Will fluctuate with the market - may incur loss.

Fund Type	Average Total Operating Expenses	
	Mutual Funds	ETFs
US Large-Cap Stock	1.31%	0.47%
US Mid-Cap Stock	1.45%	0.56%
US Small-Cap Stock	1.53%	0.52%
International Stock	1.57%	0.56%
Taxable Bond	1.07%	0.30%
Municipal Bond	1.06%	0.23%

Data in above table from MFS Investment Management, "Is a Separately Managed Account for You?"

<http://kovackadvisors.com/ka/Presentations/MFS%20Whitepaper%20-%20Is%20a%20SMA%20for%20you.pdf>

## About Scott T Etzel

[www.etzelfinancialresources.com](http://www.etzelfinancialresources.com)



Scott T. Etzel, CRPC®, is an Investment Advisor Representative and founder of Etzel Financial Resources. He earned a Bachelor's degree in Business Administration from Grand View University and obtained the Chartered Retirement Planning Counselor® designation through the College for Financial Planning. Scott also holds Series 7 (General Securities Representative) and Series 66 (Uniform Investment Advisor - Combined State Laws) securities registrations along with state insurance licenses, allowing him to provide a broad range of investment, retirement, and insurance solutions to his clients.

Scott specializes in helping high-net-worth individuals, professionals, and closely held business owners navigate the complexities of wealth management. His advisory process integrates investment consulting, advanced financial planning, and ongoing relationship management to help clients pursue their financial objectives with clarity and confidence. By focusing on tax efficiency, disciplined portfolio design, and long-term planning strategies, Scott works to help clients grow, protect, and transfer their wealth effectively.

Through a collaborative approach that often includes coordination with attorneys, accountants, and other trusted professionals, Scott delivers integrated solutions tailored to each client's unique circumstances. His goal is to simplify complex financial decisions and help clients build a sustainable financial future while protecting the financial security of their families and the legacy they intend to leave behind.

I have years of specialized training in areas such as:

- Business owner and continuation planning -
- Asset growth & tax-efficient investment strategies -
- High-net-worth estate planning -
- Wealth Transfer Strategies -
- Social Security optimization -
- Long-term care planning -
- Retirement income strategies -
- Employer 401(k) plan rollovers -
- College savings planning -

You can study and read more about Scott Etzel at [www.EtzelFinancialResources.com](http://www.EtzelFinancialResources.com).

## About Etzel Financial Resources, Inc.

- Etzel Financial Resources is an independent wealth management firm dedicated to helping individuals, families, and business owners make confident financial decisions through comprehensive planning and disciplined investment management. The firm's process integrates investment consulting, advanced financial planning, and ongoing relationship management to address the full scope of a client's financial life, including portfolio management, tax-efficient strategies, retirement income planning, estate and wealth transfer considerations, and risk management. Etzel Financial Resources works closely with clients' accountants, attorneys, and other professional advisors to coordinate strategies and deliver integrated solutions tailored to each client's goals. By combining sophisticated planning techniques with personalized service, the firm focuses on helping clients build, protect, and transition wealth while maintaining clarity and confidence about their financial future
- **Estate Planning** - Includes assistance with living trusts and elimination of estate taxes.
- **Wealth Management** - preserve your capital.
- **Financial Planning** - help you maximize all of your financial opportunities--lower debt expense, reduce taxes, prepare for future events, and create required income streams
- **Retirement Plan Rollovers:** Employer 401(k), 403(b), 457(b) TSP, SEP, etc., plan rollovers
- **Social Security Planning:** Social Security timing. How do you maximize your income?
- **Long Term Care:** insurance needs analysis, education, planning, & coordinating with your financial plan.
- **High Net Worth:** Integrated Wealth Strategies for every stage of success.
- **Insurance Services** - ensure that your risks in life are insured so that an unforeseen event does not destroy your savings and financial plan

**Phone today with questions or to see if we can help you.  
There is no charge for an initial meeting.**

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