

Funding Accounts

The following is a simple graphic I made to represent a complicated concept. The idea is to explain the idea in as few words as possible.

Background Information

An SMA is a *separately managed account*. These are accounts separated from other accounts often because they should be invested in a specific way. Think of the SMA in this example like an Arnold Palmer: the account is carefully maintained so that it's always at 50% iced tea and 50% lemonade. Your financial advisor doesn't want to add a large amount of iced tea or lemonade to that mixture because it would lose its delicious balance.

Let's say your SMA is doing well, and you want to take money out and invest it into other things. Instead of disrupting the balance, you can use a separate account called a funding account. When there's too much in the SMA, you can take some of that account in cash and put it in a funding account. Now you can use that cash to invest in something else. Similarly, if the account isn't full enough, you can put cash in a funding account, then send the money into the SMA account so that it's invested in the correct balance.

Graphic Example

