

## **Research Assessment #8**

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**Subject:** Asset Management Companies

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“Asset Management Company (AMC) - Overview, Types, Benefits.” *Corporate Finance*

*Institute*, 11 Aug. 2020,

[corporatefinanceinstitute.com/resources/knowledge/trading-investing/asset-management-company-amc/](https://corporatefinanceinstitute.com/resources/knowledge/trading-investing/asset-management-company-amc/).

**Assessment:**

Following my change of study from hedge funds to asset management, I wanted to focus on other types of asset management firms and get insight to their operations. I was excited to see that most asset management firms work similarly to hedge funds, with some obvious differences.

One of the biggest differences I immediately noticed between hedge funds and other asset management companies is that most asset management companies are regulated by the Federal Trade Commission (FTC). The role of the FTC is to ensure that the enforcement of civil U.S. antitrust law and the promotion of consumer protection. What this means is that the asset management companies I will be researching are going to be much more heavily regulated than hedge funds. The reason why asset management companies are regulated by the FTC is because most deal with money that doesn't come from certified investors. Most asset management companies, such as mutual funds, deal with money that comes from regular people, and the United States government believes that it must protect the average person who may not be as knowledgeable about investing as a certified investor. I expect this to put more burden on the

asset managers working at these asset management firms. After all, it is much more difficult to diversify a portfolio when you have heavy restrictions placed on your activities.

One interesting similarity between asset management firms is their general fee structure and investment focus. I was not surprised to learn that asset management firms work similarly to hedge funds in respect to them charging a management fee for all assets under management. However, I was surprised by how much lower this fee was. It is standard for hedge funds to charge 2% for all assets under management and then a 10-20% fee on top of that for all profits made in a given year. In comparison, most other asset management companies just charge a 2% fee on all assets under management. This means that most asset management companies make significantly less money than hedge funds. One positive of making less than hedge funds is that it decreases the risk of becoming too big to fail. Being too big to fail essentially means that an asset management firm is so large that if the company performs poorly, or worse collapses, it has broader implications on the economy as a whole. By staying smaller because less revenue is being generated, asset management companies lessen the risk of becoming too big to fail. Another similarity that I found interesting is the investing focus of hedge funds and other asset management companies. Asset management companies are buy-side companies. What this means is that asset management companies help clients buy assets and inform them on the best avenues to invest their money. This is great for me, because I already have knowledge of buy-side investing strategies.

The last major comparison that caught my attention is the types of investors that hedge funds pull in versus the type of investors most other asset management companies pull in. As I mentioned before, hedge funds attract certified investors who know what they are doing. On the other hand, most asset management companies work with companies or common people. This is

not to say that companies or individuals do not know how to invest or what to invest in, just that investors in a hedge fund most likely know much more than people who invest in something like a mutual fund. What I found most interesting is that in both cases investors go to asset management companies because they have expertise that is out of the investors' reach. I found it very interesting that even though hedge funds investors know much more about investing than most people, they still go to hedge funds because they need their expertise about investing.

I am extremely excited to take on my new, but familiar topic of study. Moving forward I want to learn more about the government regulations that asset management companies face and how they make their profits.