

The Key to Scaling Your Practice

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January 11, 2011

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Growing distaste for commission-driven advice is driving many retiring baby boomers to independent advisors for unbiased counsel. Those independent advisors who are ill-equipped to handle a large influx of business, however, will struggle to harness the swelling demand.

To capitalize on this new wave of assets, advisors need an edge. Many forward-thinking advisors have already discovered such an advantage in model portfolios. Once seen as a tool for frequent traders and client-shy advisors, model portfolios have evolved into a valuable asset for advisors

of all styles, offering:

- Simplified money management
- Streamlined trading
- Scalable back-office processes
- Sophisticated investment capabilities

Considering recent technological advances in trading platforms and the pressure of today's financial markets, even advisors who have long dismissed model portfolio functionalities should revisit them now.

A model solution to the growth conundrum

Without careful foresight, a successful advisor may discover he or she is trapped in a Catch-22: The strong investment performance that drives growth will falter if the firm grows too large. Facing this challenge, many advisors seek a comprehensive solution, a tool that simplifies the application of investment strategies across their practice, no matter how large their practice becomes.

Fortunately for today's advisors, such a solution may be found in model portfolios.

Providing the framework to execute reallocations, rebalancing, and trades across an entire practice with just a few keystrokes, model portfolios maximize back-office efficiency while offering unmatched flexibility and scalability on the front end. All the while, the model portfolio process facilitates, and in many cases enhances, an advisor's unique trading



methodologies while freeing up ample time, energy, and resources to address clients' account-level concerns.

In other words, model portfolios are an ideal solution for effectively managing growth rates large and small.

Based upon a classic staple

So why are model portfolios necessary? The concept underlying model portfolios is as old as the investment advisor profession. As long as advisors and investment committees have been setting target allocations for clients, they've been implementing model portfolios. From conservative strategies laden with fixed-income mutual funds to risky approaches that lean on high-beta investments, advisors have historically earned their keep by steering clients to appropriate investments that meet their short-term financial needs and long-term financial desires while adapting to their tolerance for risk.

But people may not realize that the technology supporting model portfolios has changed drastically, and they may still be trying to grow the old fashioned way. Historically, once advisors designed the most effective blend of investments, in order to scale their business advisors turned to a third-party software program – most likely a spreadsheet application – to calculate how the investment strategy models applied to each individual account. Once the program generated necessary buys and sells, the advisor or a dedicated employee spent hours – sometimes days – executing the needed trades and reconciling every account.

Reallocating and rebalancing followed as needed, as did regular client meetings, which ensured that the strategy remained the best approach for the client at that time. Historically, this business model worked, but with severe limitations.

An impediment to growth and profits

When it incorporates proprietary tactics, complex trading methodologies, and effective marketing, an advisor's investment strategy can quickly reap marketplace success, drawing in millions of dollars worth of assets.

Yet, as awareness of a strategy grows and the strategy gains popularity and assets, inefficiencies emerge, along with the potential to bog down the practice. On the back-office side, processing effectiveness dwindles; each new investment strategy requires a new account, potentially resulting in multiple accounts for a single client. Third-party tools offer some relief, but these add the operational burden of data uploads and downloads, reconciliation requirements, compatibility issues, training, and maintenance.



Rapid growth dulls the edge of a unique trading methodology, and trading complications weigh on investment decisions. To handle the problem, some advisors add new employees, shaving profit margins.

In the field, customer service and client attention suffers as the client base expands. Advisors regularly find that growth forces a choice between managing money and working with clients.

In short, though they offer a stable approach to helping clients achieve financial success, the limitations inherent in the traditional application of model portfolio investment strategies set a hard cap on growth and profit opportunities for advisors.

Proactive risk management

One approach, which model portfolios exemplify, to managing the influx is to integrate everything into one system. When trading is done at the omnibus level, a fully integrated system enables all transactions to be executed at the same time, allowing all clients to have the same market exposure. In contrast, when transactions are executed individually, those clients whose trades are executed early (i.e., larger clients) are more likely to get more precise execution of the investment strategy than later (smaller) clients. Omnibus trading lessens market exposure and ensures fair treatment, no matter the size of the client, enhancing your office's efficiency at the same time.

There is also less risk of human error in this system since, with rebalancing and reporting done within the application, there is no need to transmit, replicate, download and reconcile.

Optimizing model portfolios in your practice

So how exactly do model portfolios work? In a nutshell, inputting an investment change at the model level sets off a series of back-office events that ensures each client with an allocation to that model will see the impact of that change.

Yet the leading-edge solutions also offer the ability to tailor each account uniquely, allowing accommodation of every client's specific needs. Drilling deeper, sophisticated model portfolio functionality provides:

1. *Simplified money management.* Advisors using industry-leading model portfolio functionality enjoy easy adjustments to existing strategies and smooth rebalancing, as well as the ability to quickly introduce new investment options or strategies. Plus, when multiple strategies are appropriate for a client, each may simply be plugged into the client's single account and fine-tuned as needed. If the client holds legacy or out-of-strategy assets, leading model portfolio platforms instantly incorporate the extraneous securities into the client's account without disrupting his or her strategies.



2. *Streamlined trading.* Leading-edge model portfolio technology dramatically decreases the time needed to enter, execute, and reconcile trades, even across thousands of accounts, eliminating the need for additional staff and freeing time for client contact. Meanwhile, calculation and reconciliation errors drop to zero, as does the likelihood of omitting a client account or mishandling a legacy or out-of-strategy holding. Ideally, the automated process will also incorporate real-time position trading. This allows for quick moves in and out of the market and efficient cash processing, while eradicating the potential client-level issues that can result from trading a large book of business on an account-by-account basis.
3. *Scalable back-office processes.* The effort required to invest a new client's assets at a firm using advanced model portfolio functionality simply equals the time needed to enter the individual's vital information and allocate his or her funds to the existing model portfolios. That's it. All of the necessary trading flows through the system. So, too, do all performance reporting, all gain/loss tracking and reporting, and all fees tied to any new piece of business. Down the road, consolidated client statements and online account access help keep clients focused on the big picture.
4. *Sophisticated investment capabilities.* Some advisors would love to expose their clients to numerous investment strategies, but their hands are tied by the limitations of their current processes. Thanks to the efficiencies inherent in leading-edge model portfolio platforms, advisors are free to frequently develop and refine strategies based on market drivers and in-depth analysis without worrying about a trading system's limitations.

Determining whether model portfolio functionality would work for you

Any number of back-office and custody service providers may say that they offer model portfolio technology, but for optimal impact on a growth-minded practice, advisors should ask potential vendors the following questions.

- *Do I have the ability to move beyond account-anchored platforms and manage assets from the strategy level?*
- *Does the model portfolio functionality conform to, and enhance, my preferred business model?*
- *Can I assign multiple strategies to a single account?*
- *Is the model portfolio functionality flexible enough to handle variations in the structure and processing of strategies?*



- *Does the system facilitate trading calculations and decisions based on real-time position data?*
- *Is the model portfolio functionality part of a comprehensive platform that also features reliable processes to invest new money, generate funds, and automate the collection of management fees?*

If the answer to any of these questions is “yes,” now is the time for advisors to take a hard look at their current practices and determine if they are fully prepared to maximize today’s sweet spot. If not, a model portfolio can have you poised for success.

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