

# Beyond 2020: Future-Proofing Your RIA

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The COVID-induced disruption has wreaked havoc on every aspect of our lives, and financial advisors are certainly not immune. It has also accelerated the need for RIAs to re-think their business and operating models as we enter a new era with new norms. Can outsourcing provide an antidote for The New Normal?



## Executive Summary

Being a financial advisor in 2020 has been like trying to pilot a lunar landing using a hang glider—beyond challenging, impossible to predict, and with more than just a little turbulence. But has there ever been a better time to test the mettle of outsourcing to a unified managed account (UMA) portfolio and practice management platform?

### Outsourced Managed Account Solutions—Now More Than Ever?

Along with the incredible juggling act advisors already perform on a daily basis, 2020 decided to throw in a worldwide pandemic, national and global lockdowns, record unemployment, widespread civil upheaval, unparalleled political rancor during an election year and the prospect of a daunting global re-opening process.

And that's just the first half.

Not that it's ever been easy for advisors to balance portfolio construction with business development. Even in “normal” times, there has been data to suggest that the majority of advisors struggle to consistently improve risk-adjusted results by acting as their own portfolio manager. It seems they can, however, generate more meaningful results by emphasizing financial planning and behavioral coaching (i.e., more time spent on client communications)—to the tune of approximately 150 bps<sup>1</sup>.

Somewhat surprisingly, there is also data to suggest that more than half of investors have no preference whether their advisor provides investment management in house or outsources it to a managed account provider, just “as long as my investments are secure and performance is satisfactory”.<sup>2</sup>

So, if it's true that in many cases advisor portfolios have lagged those of third-party providers,<sup>3</sup> and far fewer clients than expected seem to care whether their advisor outsources investment management or not, then it begs the questions:

- If outsourcing was already gaining steam as a pre-COVID investment management solution, what is its value in a once-in-a-generation correction year like 2020? And moving forward?
- Can outsourcing really provide a way to experience cost savings while carving out newfound time to nurture client relationships—even during incredibly volatile markets like these?
- What are the attributes to look for in a qualified outsourcing platform that can help navigate a pandemic-fueled economy?

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### Desire for In-House Investment Management

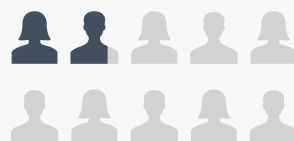
Firms that position themselves as investment managers have shrunk by half in response to this widening gap, while the number of firms choosing outsourcing has grown and expanded their services.

#### ADVISORS



of advisors believe clients prefer in-house investment management

#### CLIENTS



of advisory clients\* indicated they preferred their advisors to conduct in-house investment management

\*clients with 70% or more of their assets managed by an advisor

SOURCE: FA Insight/TD Ameritrade Institutional Benchmarking. 2019.

<sup>1</sup> Vanguard's Research. "Putting a value on your value: Quantifying Vanguard Advisor's Alpha." 2019.

<sup>2</sup> Outsourcing: Striking the Right Balance Between Customization and Efficiency. FA Insight/TD Ameritrade Institutional Benchmarking. 2019.

<sup>3</sup> Cerulli Associates. The Cerulli Edge. "U.S. Managed Accounts Edition." 1Q 2019, Issue #71.

## Seeking Shelter from the Storm

The nature of market volatility this year is unprecedented, having been caused by a pandemic the likes of which has not been seen in over 100 years. You might think that being asked to excel at managing bespoke portfolios (performing research, selecting investment vehicles and hands-on portfolio management, rebalancing, and tax optimization) in times like these—all while cultivating client relationships and growing your practice—would require superhuman ability. And you'd be right.

2020 could in fact be the most glaring example, this century or last, of how quickly the swath of a correction tornado can rip through portfolios, and how wide and severe the damage can be for financial advisors. It can also make the case for outsourcing seem more pressing. For advisors, having an intelligent, comprehensive managed account platform to help guide your financial advice delivery (while possibly experiencing cost savings) could be worth deeper consideration in times like these. And it's no small matter that a third-party platform can also ensure that the investment process has a proven overseer in this age of increased emphasis on fiduciary standards.

Pundits—and everyone else—have now officially run out of superlatives in trying to describe the havoc 2020 has wrought: Unprecedented. Unhinged. Surreal. Bonkers. Call it what you want, but it's all been enough to motivate advisors to move client accounts, especially high net-worth accounts, to outsourced managed account platforms this year.<sup>4</sup>

There's no doubt that placing the portfolio and practice management burden onto outsourced managed account providers has gained momentum as an investment management solution in recent years. Spurred on by advisors looking for additional ways to deliver value and find more time to focus on clients instead of portfolios, the proposed upsides of outsourcing include increased attention to building the business, less documentation and administrative burden, and potentially better investment outcomes through bear and bull markets. And maybe some shelter from the storm.

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During the first half of 2020, many advisors have been encouraged to move client accounts—especially high net-worth accounts—to outsourced managed account platforms.<sup>4</sup>”



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<sup>4</sup> Cerulli Associates. The Cerulli Edge. “U.S. Managed Accounts Edition.” 2Q 2020, Issue #76.

## Advisors: How Do You Find the Time?

Financial advisors are asked to wear a lot of hats. A *lot*. There's investment management (portfolio construction, research, trading and rebalancing, due diligence, monitoring), there's practice management (compliance, HR, back-office operations, IT), and there's client management (client meetings, prospecting, financial planning and reporting, client service issues).

And if that wasn't enough, they now have to explain whipsawing markets to nervous clients while dodging the threat of COVID. But as the advice industry continues to evolve into more of a relationship industry, and with more and more advisors coming to the realization that they are, in fact, only one person, many are trying desperately to carve out more time for what they see as their #1 revenue-generator—client relationship building.

As such, the time-consuming and complicated minutia that comes with investment management is being viewed more commonly as a part of the business that can be handled elsewhere, with the hopes of opening up more time for advisors to nurture client relationships.

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More time spent on client activities has been proven to lead to growth in number of clients and AUM.<sup>5</sup>”

While it goes without saying that time is not always on an advisor's side—and the key implication here may seem obvious—it bears repeating: In an average year, much of an advisor's time is consumed by administrative activities while time for client relationships gets sacrificed. More time spent on client activities has been proven to lead to growth in number of clients and AUM.<sup>5</sup> Limited time for smaller practices becomes even more evident, with their often diminished capacity leaving far less time to meet with existing clients or prospect for new ones.

With 73% of advisors saying client meetings ranked either 4 or 5 on a scale of 1-5 when gauging the amount of time they devote to certain activities,<sup>6</sup> it all leads to the ultimate question: How do advisors find more time, especially now?

## Advisors spend just over half of their time on client-facing activities. *But is it enough?*

Advisor Activity	Independent RIA Channel
<b>Client-facing activities</b>	<b>53.2%</b>
Client meetings	18.9%
Preparing for client meetings	9.2%
Prospecting for new clients	10.7%
Financial planning (e.g., plan creation)	9.5%
Client service problems	5.0%
<b>Administrative</b>	<b>25.3%</b>
Managing day-to-day operations & administration	10.1%
Practice management	8.4%
Compliance	4.4%
Other	2.4%
<b>Investment management</b>	<b>16.6%</b>
Investment research, due diligence, & monitoring	12.1%
Trading and rebalancing	4.5%
<b>Professional development</b>	<b>4.8%</b>

### Time Allocation, 2019

**Analyst Note:** Practice management includes activities such as business planning, staff development, and marketing.

SOURCE: Cerulli Associates, in partnership with the Investments & Wealth Institute (formerly IMCA) and The Financial Planning Association® (FPA®)

<sup>5</sup> Fidelity. Financial Advisor Community: Outsourcing Trends. 2018.

<sup>6</sup> WealthManagement.com, Raymond James. RIA Best Practices. “Advisors Remain Focused On Client Relationships”. 2019.



## Is Outsourcing the Answer?

To make up for areas that can drain productivity—to find more time—many advisors have been turning to outsourcing certain functions to stay competitive, an option that was already trending pre-virus. In 2018, Fidelity showed that many advisors said they had a successful experience working with a third-party service provider,<sup>7</sup> and that advisors who outsourced work related to at least two functions (including technology, investment management, and legal and compliance) reported growth in the number of clients and AUM.<sup>8</sup>

In their 2019 report, Cerulli cited the strategic implementation of technology as an antidote to help alleviate bottlenecks, lift productivity, and give advisors some of their time back to focus on their core expertise of client management.<sup>9</sup> This goes hand-in-hand with identifying and addressing areas that create unnecessary drags on productivity (i.e., under-utilizing existing technology tools, ineffective delegation, or a lack of consistent procedures across multi-advisor teams) as a way to significantly boost practice efficiency and effectiveness.<sup>10</sup> A major upside with outsourcing is that the provider's platform (at least a proven, qualified provider) will alleviate the burden of any strategic tech implementation associated with portfolio and practice management, including:

- The expense of implementing a state-of-the-art, single UMA tech interface
- Seamless, a la carte integration of tech tools based on advisor need
- Maintaining the platform by conducting updates and constantly improving it
- Supplying tech support personnel to troubleshoot any questions

While outsourcing has its roots in being such a tech provider, it's growing popularity in recent years also has origins in helping meet the demands for a holistic investment approach. There is a burgeoning base of savvy investors looking for compressed fees, tax-advantaged solutions, and complete transparency while exerting a cultural watershed that demands to see almost everything with the click of a button.

More recently, the drive to upgrade advisor tech platforms and ditch manual workflows in favor of a streamlined single platform provider—where all functions are handled online from a single interface—has pushed some outsourced managed account providers to the forefront of the industry. Without them, advisors often end up having to default to tools provided by the custodian, which they then must integrate on their own.



<sup>7</sup> Fidelity. Financial Advisor Community: Outsourcing Trends. 2018.

<sup>8</sup> Ibid.

<sup>9</sup> The Cerulli Report. U.S. Advisor Metrics 2019.

<sup>10</sup> Ibid.

## That Was Then, This Is Now

Even before COVID-19, most financial firms were already facing the need for technology upgrades due to regulatory cost pressures, increasing competition and shifting customer expectations. Now, in the wake of a global shutdown and clunky-at-best reopening, they are revising their plans for business transformation. Almost all are turning to next-gen technologies to address the complexity ushered in by the pandemic.

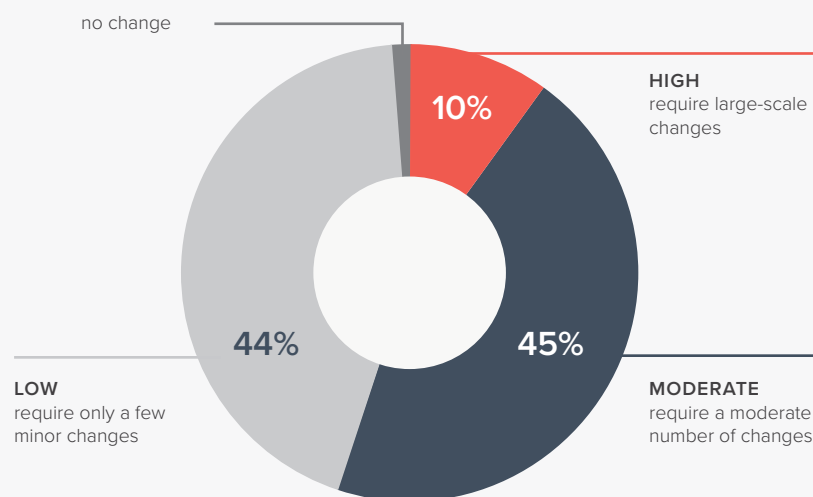
COVID-era data is now starting to emerge that continues to support the advantages of outsourcing to managed account technology providers. New research from ETF sponsor and asset manager WisdomTree shows that outsourcing portfolio management continues to be an upward trend in 2020 across the financial planning industry as advisors seek to differentiate themselves in turbulent markets, presenting their value in more holistic ways while passing off the asset management to robust tech platforms.<sup>12</sup>

Their research also reiterates investors' indifference to whether investment management is home-cooked or outsourced, citing that, as of May of 2020, even fewer investors required customized investment solutions than they did pre-COVID volatility because they liked the idea that more professionals were thinking about their investments during troubled times.<sup>13</sup>

“COVID-era data is now starting to emerge that continues to support the advantages of outsourcing to managed account technology providers.”<sup>13</sup>

Nearly all financial firms will be changing their tech strategies in reaction to the pandemic<sup>11</sup>

**SOURCE:** Broadridge. This Pulse Survey, completed June 1, 2020, is based on research commissioned by Broadridge. It surveyed the views of 500 global C-suite executives and direct reports from buy side and sell side financial institutions.



<sup>11</sup> Investment News. “Advisors shouldn’t be afraid to outsource portfolio management”. June 23, 2020.

<sup>12</sup> Ibid.

<sup>13</sup> McKinsey & Co., “The State of North American Retail Wealth Management: PriceMetrix 9th Annual Report.” 2020.

## Market Outlook: Do You Believe In Miracles?

If advisors were already being challenged to keep up with a pre-COVID cultural and technological shift in the industry, we can only imagine how 2020 has re-shaped the demands of their businesses. While we wish the news was better, it would be hard to say things are going to improve anytime soon.

It's important to note that a major part of the of the change across the financial advice industry in recent years has seen wealth managers move to asset management fees as opposed to revenue tethered to financial transactions. Ethically speaking, this was good news for investors as it made the argument that financial advisors should prioritize the needs of clients over persuading them to buy products that reap advisor commissions. In fact, According to a new report by McKinsey & Co., fee-based revenue now contributes 69% of firms' overall gross production, up from 49% in 2015.<sup>14</sup>

Much of that growth has come from cultivating existing relationships as advisors take a more holistic approach with the same number of clients rather than collecting sheer numbers of new households. Accounts per household climbed from 2.7 in 2015 to 3.1 in 2019 as top advisors developed deeper and fewer client relationships.<sup>15</sup>

While this approach has worked during an historical bull run of more than 10 years, fee-based revenue obviously declines during bear markets, sometimes drastically, as 2020 might show in full force depending on how advisors have positioned certain portfolios. How is COVID leaving its mark on the global economy this year?

- Rising debt
- Massive behavioral change in consumers
- Populism, deglobalization and geopolitical conflict
- Renewed tension between China and the U.S.
- Growing social unrest

Just to name a few. Not only do these represent new threats to the cyclical outlook, they're also a reminder that the secular outlook faced powerful headwinds even before COVID-19 struck.<sup>16</sup>

It's an environment rife with uncertainty, ambiguity, and a complete lack of control in forecasting market behavior. Is it also an environment ripe for the proposed support of an outsourced managed accounts provider?

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Top advisors (in terms of client retention)  
have deeper & fewer client relationships.

Annual retention rate of households (with more than \$250k in assets)	3-year asset CAGR	Number of households served (total)	Accounts per household	Percent of households with retirement 76%	Annual Attrition rate of \$250k+ households
Top 25% of advisors	8.0%	140	3.4	76%	1%
Bottom 25% of advisors	6.5%	153	2.6	62%	8%

SOURCE: PriceMetrix

<sup>14</sup> McKinsey & Co., "The State of North American Retail Wealth Management: PriceMetrix 9th Annual Report." 2020.

<sup>15</sup> Ibid.

<sup>16</sup> Ibid.

## Choosing the Right Outsourcing Provider

It's natural to become overly cautious during time like these, but firms who cut spending on innovation can risk getting lapped by their competitors. The question isn't whether to adapt, but how. To thrive and succeed both near- and long-term, wealth managers will have to ask themselves: How have the needs of my clients changed, and what have I done to change and meet those needs?

We know the path to greater efficiency (and profitability) for smaller, more decentralized firms can be more challenging than for bigger firms. But at a strategic level, all firms must look to optimize and streamline each piece of their business, whether it's technology, workflow, or managing risks and opportunities, and methodically implement the solution that will help them stay competitive in today's rocky environment.

An outsourced managed account provider should be able to help advisors achieve the following across all markets:

- Enable the consolidation of multiple non-integrated systems to support all advisory programs and workflows
- Provide advisors with a common set of tools to run proposals, select the appropriate asset allocation mix, construct tax-aware portfolios, trade and manage accounts, and generate performance reporting
- Gain the agility to manage, monitor, and measure across-the-business investment processes around products, overlay, operations, and compliance—and ultimately, accelerate growth

The broad effects of partnering with an outsource provider should include:

- Business scalability
- Ability to leverage investment manager expertise
- Greater focus on client acquisition and retention efforts
- Improved ability to address compliance regulations
- More stringent manager due diligence
- Ultimate driver of increased client satisfaction
- Potentially enhanced profit margins

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## Conclusion

This world is changing at hyper speed, and the investment landscape moves in lockstep with all the ups and downs. As the rest of 2020 plays out, the impact on populations, governments, and financial markets is still foggy. Relationships between advisors and clients have been mightily tested as advisors are called upon to bring strength, stability, and perspective to their clients during unprecedentedly volatile markets.

It's incredibly challenging to tailor portfolios for today's investors while trying to build and maintain all other aspects of an advisory business. One wonders how advisors find the time to construct, monitor, and rebalance truly customized portfolios at scale (and optimize tax considerations for each one) while nurturing all client relationships.

It was that way before COVID accelerated this correction year. It's even more so as we navigate through the pandemic. What is the best way to future-proof your business beyond 2020?

Outsourcing may well be worth consideration. The benefits of moving to an outsourced managed account solution start with the cost-efficiencies that can come with an automated system and extend to the ability to approach market, portfolio, and account data more effectively throughout the client life cycle, from initial prospecting to servicing. For over 20 years, we've seen our technology enable wealth managers to excel in turbulent markets by helping them easily integrate between platform and managers to scale their business as needs change. We expect to provide that same kind of guidance through tough markets ahead.



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Find out how Adhesion Wealth can help you navigate today's turbulent markets.

Call 888-295-8351, email [sales@adhesionwealth.com](mailto:sales@adhesionwealth.com), or visit [www.adhesionwealth.com](http://www.adhesionwealth.com).



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