THE CASE FOR MODEL PORTFOLIOS

How to Achieve Growth and Scale in Your Advisory Firm

www.kwanti.com
sales@kwanti.com
415 - 354 - 9703

Introduction

Growing an advisory firm requires commitment, vision, and an attention to detail for what investors most want from their financial advisor.

But all too often, what an investor values from their advisor, and what an advisor thinks investors value are not aligned.

So in this ebook, we're going to take a brief look at what you need to know about aligning your value with what your clients want from you, and then look at how strategic decisions you make about how to deliver your financial advice can support those values.

Let's begin where all advisors should begin: By asking, **"What do investors value about working with me?"**

According to recent research, investors value advisors most for their financial advice.[1] This may not be a tremendous surprise; after all, in the digital revolution of retirement planning, it's the human relationship that continues to set advisors apart from their robo counterparts.

But today, with volatility and uncertainty caused by COVID-19, that dividing line about what makes advisors valuable has only increased. Investors have a deep desire for goal-based planning and strategy recommendations—and those desires have increased in 2020.

If we look at where advisors spend most of their time, though, it isn't in delivering advice to clients. Instead, advisors put more time toward portfolio management than any other business activity.[2]

Why is this important? It means that the business goals that advisors profess to have—getting new clients and strengthening current relationships—are at odds with how they choose to actually spend their time.

At this point, we need to acknowledge that it is difficult for advisors, especially solo advisors, to prioritize their time between meetings and the actual work that goes into producing positive outcomes for clients. There's simply not enough time in the day to do it all.

And that brings us to why advisors choose model portfolios. The use of models can improve how advisors spend their time, and the end result is better than mere efficiency gains—the end result is that clients get to spend more time communicating with their advisor, and receiving personal advice for their whole financial life.

Over the rest of this ebook, you'll see why models are not only a best practice, they are a near necessity for advisory firm growth.

[1] https://www.iris.xyz/etf/busting-model-portfolio-myths/
[2] State Street Report

The Popularity of Models Among Advisors & Investors

Let's begin where all firm growth begins—by focusing again on what investors want. The research shows that advisory clients prefer model portfolios. Investors are more likely to choose an advisor if they know they use third-party models.[3]

Why would that be? One reason is likely that because investment models are well-researched and run by professional money managers, using them can increase an advisor's credibility.

On the flip side, there's not a strong reaction against the use of model portfolios. When asked, only 10% of investors were opposed to the idea of their advisor investing them in a model portfolio. For most investors, their primary concern is that they reach their goals and work with an advisor that they can trust to make the right investment decisions.[4]

In other words, the destination is more important than the path to get there.

That's how prospective clients view model portfolios. Investors currently working with an advisor also have a favorable view of them. Overall, investors already invested in a model rate their advisor higher than those not invested in models. That rating includes a 10% gap between those who see their advisor as a trusted financial partner, and those who don't.[5]

With statistics like that, you might think that model usage among advisors would be sky high. But that's not the case. Even with clear investor preference, current advisor usage is mixed.

Over half of all advisors do leverage model portfolios. Of those, though, portfolio construction is split between advisors who use models as is, those who make their own customizations to models they subscribe to, and those who alter portfolios based on individual client needs.[6]

The other half of the industry who doesn't use models may be holding out for two primary reasons:

- Advisors can still see stock picking as intrinsic to their value (even though investor preferences has shifted to valuating advice and planning)
- Advisors can see model portfolios as too impersonal

Those objections are primarily a result of a misunderstanding of how an advisor can best use their time. It's not in investment management; it is in building a business and delivering personal advice that touches all of a client's financial assets and debts, not only personal investment recommendations.

[3] https://www.iris.xyz/etf/busting-model-portfolio-myths/
[4-5-6] State Street report

The Role of Models in an Advisory Firm

There are four primary ways that model portfolios benefit an advisory firm.

1. EFFICIENT RELATIONSHIPS

Service is more important than performance in long-term advisor relationships. When model portfolios are used in a practice, advisors give themselves the time to place a premium on service and relationships over portfolio construction.[7]

Implementing models means advisors can reduce the time spent on investments and administrative tasks by half, and increase client-facing time by up to 20 percent.[8]

And in another survey, 72% of advisors using third-party models said that doing so allowed them to spend more time with their clients.[9]

All around, it's a complete win-win.

2. IMPROVED RELIABILITY

Even if advisors spend half their time managing portfolios, their attention is still divided. In a "best interest" world, that doesn't cut it.

Asset managers have more access to research, risk management tools, and institutional resources, as well as access to robust investment vehicles and techniques. And advisors can offer more consistent outcomes as a result.

3. CONSISTENT ANALYTICS

Models make it easier to analyze the degree to which investments are performing in line with client profiles.

And in the time of best interest, you can lighten your regulatory burden by standardizing how you service clients. A consistent investment process demonstrates that you are providing equitable treatment to each client you serve.[10]

4. BLENDED STRATEGIES TO IMPROVE CUSTOMIZATION

Model portfolios don't mean that advisors can't customize their approach. In fact, in many ways models can improve the tactical decisions advisors sometimes need to make.

With blended strategies, an advisor can manage a fixed income and emerging markets focus together in a single portfolio with ease.

Advisors who prefer to make specific portfolio updates at key points in time as the markets shift can realize a tremendous time benefit by basing portfolio construction on a foundation of blended models.

BY THE NUMBERS

90%

It's estimated that up to 90% of all advisors will utilize models in their practice in the coming years.

$11 Trillion

Models have the potential to influence as much as $11 trillion in wealth management assets.

[8] BlackRock Report
[9] https://financialadvisoriq.com/c/2856713/351773
[10] BlackRock

The Kwanti Advantage

Running model portfolios is best done with a software platform built to provide the analytics, customizability, and access to make model selection and maintenance easy.

Here are five ways Kwanti gives advisors an advantage when it comes to running model portfolios.

1. MODELS WITH HISTORY

Kwanti makes it simple to update historical rebalances and visually track portfolio allocation over time, by allowing advisors to import the historical allocation changes of a model.[11]

Why is this so critical? Because historical analysis is necessary for identifying trends and understanding the true performance of a model over time. With proprietary strategies, this level of analysis makes it simple to represent an advisor's management history and present it in a new client proposal.

Without this, most managers use spreadsheets—which are error prone and don't exactly bring the "wow" factor to client meetings.

2. BLENDED MODELS

As we've already established, using blended models helps advisors to achieve diversification by blending managers, styles, and asset classes. And by creating portfolios with complementary strategies, advisors can adopt unique tactics to improve returns and lower risk according to a client's needs and goals.

With Kwanti, creating a blend is as simple as it gets. Any number of models maintained in the platform can be combined in a portfolio to create new blends in minutes.[12]

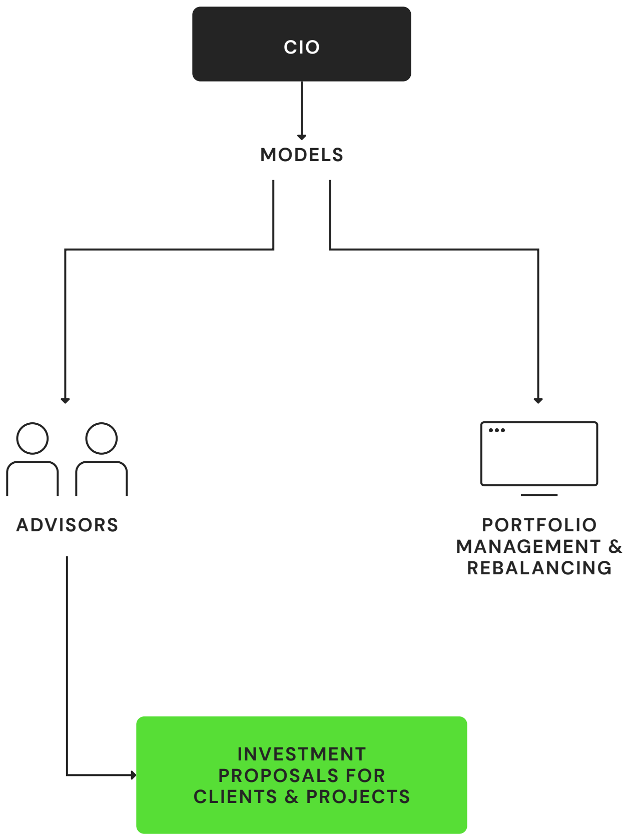
3. MODEL MARKETPLACE

Over half of advisors say the toughest part of evaluating which model portfolios to use is the struggle of comparing them all.[13]

Kwanti's Model Marketplace brings industry-leading strategists together into one place so advisors can do their research, make a decision, and then move on with getting to the real work of assigning a model to a specific client account.

[11] https://support.kwanti.com/hc/en-us/articles/360004388814
[12] https://kwanti.com/articles/blended-models_1672/
[13] https://financialadvisoriq.com/c/2856713/351773

The Kwanti Advantage



4. CENTRALIZED PORTFOLIO MANAGEMENT PROCESS

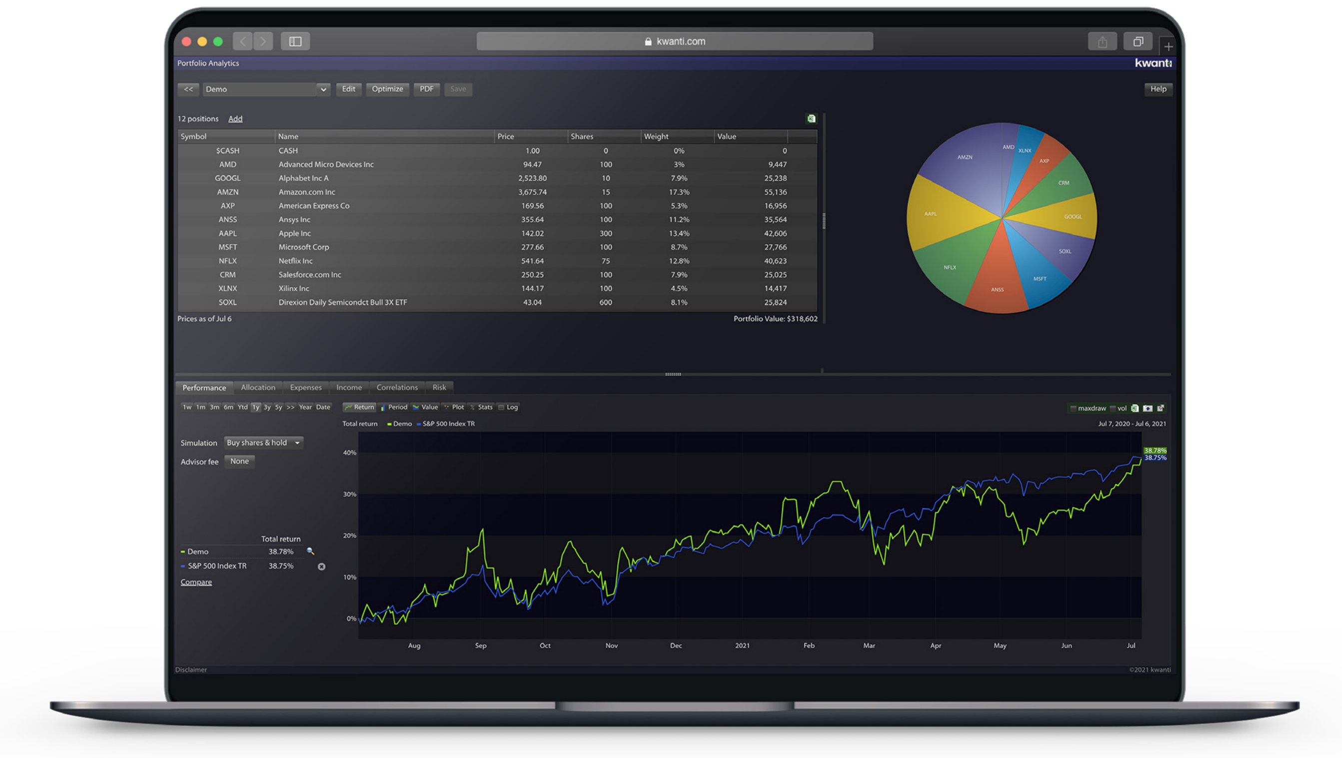
Kwanti's platform also provides additional features and integrations that make it easy to build a business around models. One of those is the ability of a firm's CIO to create and manage models, then choose how to distribute those among a firm's advisors.

For large firms, this makes it simple to centralize the portfolio management process among a key decision maker, while still maintaining access for all advisors—even if the only access they need is one or two models out of many more possibilities.

5. IN-DEPTH MODEL ANAYLSIS

Advisors using the Kwanti platform get in-depth analysis tools, including the ability to look-through asset class allocations into the individual holdings.

As important as diversification is for managing risk and improving returns, this is an aspect of model management that can't be overlooked; at times, different funds may hold the same asset. With Kwanti, an advisor can know the true diversification offered by a portfolio and make adjustments as necessary to create a portfolio that is in line with a client's true risk tolerance.



Getting Started

Implementing a model-based approach is the best choice for firms who want to grow and scale their business, while also maximizing their service to clients.

When it comes to discovering and managing model portfolios, the technology you choose can make a tremendous difference in how efficiently you implement your favorite strategies and scale your business.

- No software to install and maintain
- Subscription model - no long term contracts
- Cost efficient

With Kwanti, you can access the model management and analysis tools you need right away with a simple user interface and powerful proposal and analysis tools

Best of all, you can get started today with a 30 day free trial.

Start My Free Trial

www.kwanti.com | sales@kwanti.com
415 - 354 - 9703

kwanti