

Why Advisors are Considering Outsourcing Investment Management Activities

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Introduction

Recently, TD Ameritrade and FA Insight conducted a survey revealing the appetite for investment outsourcing services across both advisory and investor communities. As the study illustrates, the expectation gap between what advisors think they should be doing vs what clients expect them to be doing is tremendous. The study suggests that the industry has responded with new technological advances such as the Unified Managed Account (UMA) and Model Marketplaces, all with the promise of allowing advisors to spend more time with their clients, create much-needed process improvements, and expand their menu of services offered.

Desire for In-House Investment Management

Advisors



71% of advisors believe clients prefer in-house investment management

Clients



17% 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

While more than 70% of advisors thought their clients wanted them to perform investment management functions, more than half of their clients had no preferences "as long as my investments are secure and performance is satisfactory".

(Outsourcing: Striking the Right Balance Between Customization and Efficiency, FA Insight/ TD Ameritrade Institutional Benchmarking, 2019)

As a response to this widening expectation gap, the share of firms starting to position themselves as an investment manager has shrunk by half. Over this same period, the study shows that as the options for outsourcing investment management activities have grown, these firms have significantly expanded the services offered to clients.

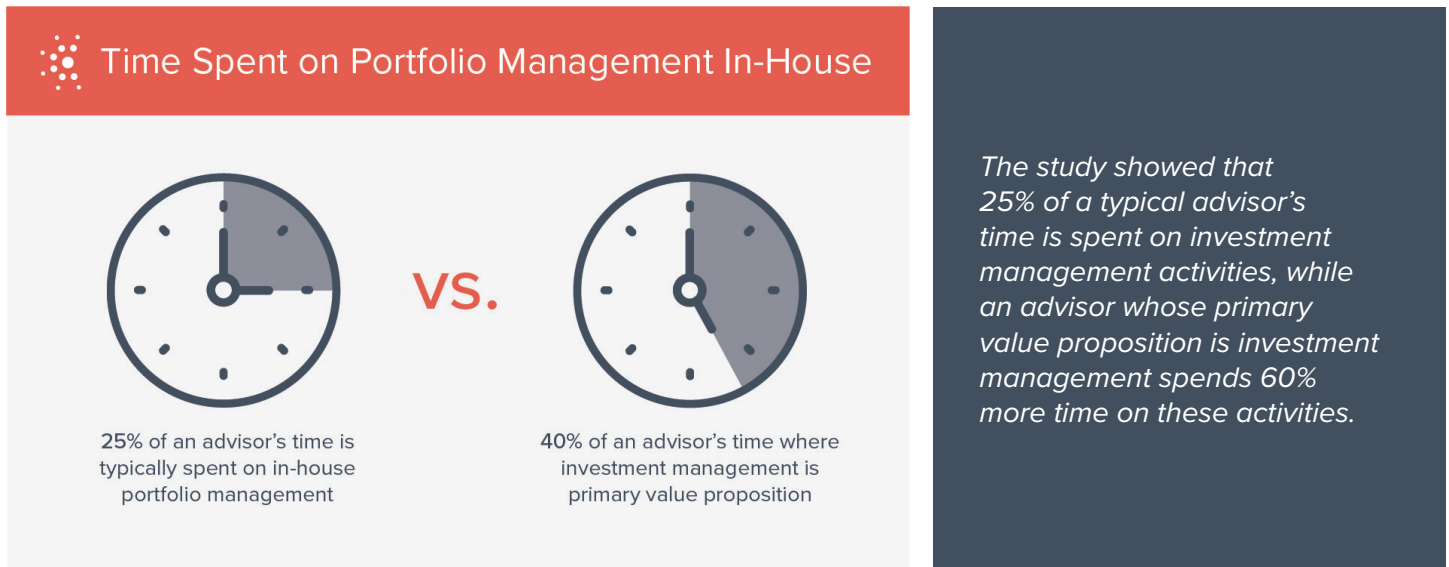
5-Yr Snapshot of Advisory Firms Service Trends



The study describes this trend as a push and pull. Advisors are being pushed to provide more value for fees. At the same time, innovation and increased options for outsourcing have pulled them in this direction.

Further, the study discovered that clients with higher income-generating potential reported the least resistance to the outsourcing of investment management activities. For example, the study found that 83% of clients with 70% or more of their assets managed by an advisor, and two-thirds of investors with \$250,000 or more in assets, had no preference for an advisor's direct involvement with their investments.

Outsourcing all or parts of the investment management process can create efficiencies and free up time to be reallocated to client-related activities. The benefit of efficiency gains or time savings were cited by 77% of the firms participating in the study as an advantage of outsourcing.



Not surprisingly, both advisors and clients feel that they need to spend more time with each other. Jettisoning the investment management function is the primary mechanism to get that time back because not only is it expensive and time-consuming to do properly – it is clearly not adding much perceived value. In the face of fee compression and newly emerging forms of competition, the need to build a scalable yet relevant offering is of paramount importance on the path to growth.

So, if that's the case, what does it really mean to outsource investment management activities? This can be divided into two key areas: research and administration. Some advisors choose to outsource both, some choose to outsource one or the other. The good news is that in today's marketplace, partnering with the right platform will provide you with the flexibility to mix and match the right modular solution for your business. But choosing the right partner is key in this process.

Flexible Outsourcing

Unlike traditional turnkey asset management programs (“TAMPs”), which offer a one-size-fits-all approach to outsourcing investment management, Open Architecture Managed Account Platforms, such as Adhesion Wealth, specialize in providing advisors with an array of flexible choices. Through an open architecture roster of SMA models, ETF Strategists, Fixed Income managers, individual ETFs, and Mutual Funds along with one of the industry’s fastest growing roster of Outsourced Chief Investment Officers (OCIOs), Adhesion provides advisors with a toolset to find all the right pieces of the investment puzzle – all in one place. When coupled with Adhesion’s flexible rule-based ‘overlay’ management capabilities and industry-leading service teams, scale through outsourcing is now achievable to independent advisors of any size.

Research

Adhesion offers a range of research options from DIY - to partial guidance using our platform tools and investment consulting teams - to fully outsourced by one of our OCIO providers. This roster of OCIO providers, also known as Adhesion’s Unified Managed Account Program (UMAP), is accessible exclusively to Adhesion clients and all have established track records in delivering asset allocation, portfolio construction, manager selection and institutional-caliber research to match the style and investment preferences desired by your firm. In all cases, Adhesion will work directly with your chosen OCIO to implement and oversee the execution of the desired strategies.

Administration

Adhesion assumes all the trading, rebalancing and administration of your investment strategies according to agreed upon investment parameters chosen by your firm. There is also a range of optional tax and transition services that you can elect on an account-by-account basis in cases where it makes sense to demonstrate a higher touch and higher value service to specific clients.

All of this is delivered with a white-glove level of service through our over-arching philosophy that your clients always remain your clients. Adhesion never stands between you and your clients, we are here to help enable you to deliver the outcomes your clients seek, not to co-opt those relationships.



To discuss the Adhesion Wealth platform and how we can help you build a customized, overlay-driven managed account program, please call us at 1.888.295.8351 or email us at solutions@adhesionwealth.com

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