Should You Outsource Asset Management?

As more advisors offer holistic planning, they farm out stock picking

BY MOREY STETTNER
FOR INVESTOR'S BUSINESS DAILY

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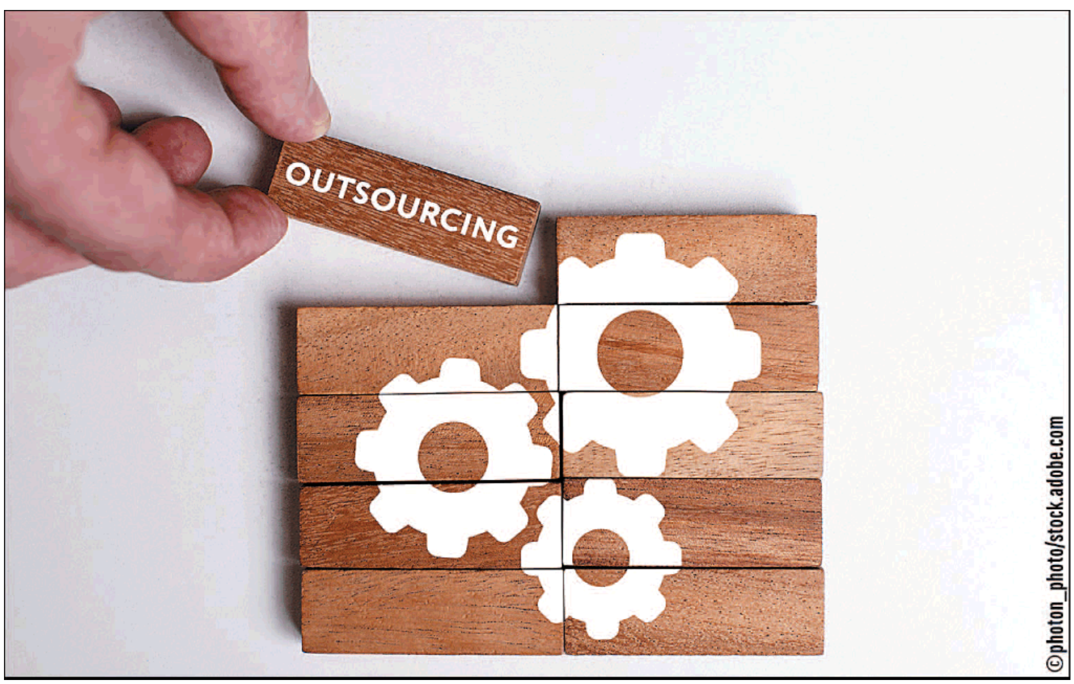

Many consumers assume an advisor's main job is to pick investments and manage portfolios. But with each passing year, that's less and less true.

A growing number of advisors prefer to deliver comprehensive financial planning to clients. Sometimes called holistic planning, it broadens the scope of services to include retirement, taxes, insurance, and household spending and saving. Advisors may also branch out to help clients negotiate leases and mortgages, navigate life events such as divorce and develop a strategy for charitable giving.

This expanded focus on overall financial wellness takes time away from traditional investment management. As a result, many advisors have decided to outsource stock-picking and portfolio maintenance to third parties known as turnkey asset management platforms (TAMPs).

Farming out asset management appeals to a range of advisors, from young planners drawn to the technology and automation, to older advisors pondering an exit strategy who like the idea of standardizing investment management so that they can hand off their firm more seamlessly to the next generation. Advisors of all ages welcome the opportunity to cultivate client relationships rather than devote large chunks of the day to researching equities and tracking market gyrations.

"Utilizing a TAMP frees up my time to take on more clients and help them with" comprehensive financial planning, said Michelle Bender, a certified financial planner in Germantown, Md. Prior to contracting with a TAMP in 2010, Bender spent nine years handling investment management on her own.

"When I self-managed from 2001 to 2010, I had slower growth (in my practice)," she recalled. "It was time-consuming, and it puts pressure on the advisor to beat the numbers" by producing consistently superior returns.

The number of advisors who are signing on with TAMPs is soaring. In 2018, TAMPs had about 198,500 advisor clients —

up from 800 in 1995 — according to research by Tiburon Strategic Advisors.

Yet while a financial planner can reap benefits from turning over asset management to these software platforms, they are not a panacea. Advisors remain responsible for client service, even if they're partly dependent on a TAMP — or multiple TAMPs — for delivering that service.

Growing Pains

Bender notes that as a TAMP scales up and adds advisors, its systems can get strained. That can lead to slowdowns in completing routine administrative tasks.

"With their growth comes growing pains," she said. "At one point, my TAMP wasn't keeping up with demand on how quickly advisors were going onto its platform. That led to some issues with customer service," such as delays in sending checks or computing cost basis for clients.

She cautions that advisors give up some control by enlisting TAMPs, and snafus with the platform might frustrate planners who set high standards for exceptional service. The risks can increase if an advisor places a relatively small amount of assets with a TAMP, as some platforms prioritize their larger accounts.

"The delays in our case weren't too bad, but then we had enough assets with our TAMP so that we got more attention," Bender said. "We had to explain to clients that we were doing our best to get their transaction done as soon as possible."

Typically, advisors tell their clients how and why they are outsourcing investment management. The advisor takes the role of quarterback, overseeing all aspects of each account while letting the TAMP make ongoing portfolio adjustments.

“Our clients understand I’m not managing their money,” Bender said. “But when I explain that the TAMP is the expert in front of the computer doing the buys and sells, I occasionally get the question from a client, ‘So why am I paying you?’ ”

Answering this question allows her to reinforce her role as a comprehensive planner who concentrates on wide-ranging financial matters. She urges advisors to “make sure the client understands completely what you’re doing” and all the value you provide.

Adding Value

Speaking of value, some advisors find that continuing to manage assets in-house proves a compelling selling point and differentiator. As more planners use TAMPs, the rest can emphasize their hands-on commitment to handling their clients’ investments.

Take Jason Leder, a Houstonbased chartered financial analyst who spent 20 years as a mutual fund portfolio manager before becoming an advisor 2-1/2 years ago. He estimates he spends 40% to 50% of his time on investment management, but he says it’s well worth it.

“From my perspective, it’s to the benefit of my clients,” he said. “It’s part of the value-added in what I do. In my opinion, the performance and risk metrics are better when I do it myself.”