Outsourcing for RIAs

By Larry Sinsimer

Editor’s Note: The opinions expressed in this article do not reflect the opinions of IMCA or the Investments & Wealth Monitor editorial advisory board.

As business grows more complex and record numbers of former wirehouse advisors swell the ranks of registered investment advisors (RIAs), outsourcing has been growing, too. Outsourcing services are available to help advisors in almost every aspect of their practices, from developing business plans to determining the most tax-efficient way to withdraw retirement income. RIAs such as Fidelity, Schwab, LPL, etc., provide services to help their new recruits establish their businesses. But if you are going independent, setting up your own firm is somewhat more complex and you might consider outsourced services.

When asked how much time they spend with clients, most advisors say “not enough.” When asked how much time they spend managing their businesses, most advisors say “not enough.” Indeed, the greatest challenge all advisors face is managing that finite and fleeting commodity, time.

Starting Your Business

It often is said that if you don’t know where you are going any road will take you there. The same can be said about trying to start and build a practice without a plan. This is especially true for former wirehouse advisors setting out on their own as independent RIAs. Working for a wirehouse meant not having to worry about things such as rent, utilities, personnel, and benefits. The talent and experience that makes a successful broker does not necessarily make a successful entrepreneur.

Fortunately, advisors can subscribe to services that will help them create successful plans. These can be found on the Internet by searching on “setting up an RIA.” A host of Web sites offer services from the very basic (RIA in a Box or Tools for Money will help you register your RIA) to the detailed (AKAdvisory Partners and others offer business planning and development). How do you determine which services are right for you? Ask for referrals from both advisors and industry organizations. Assess your needs for infrastructure, personnel, job descriptions, back office, and software. All too often advisors underestimate the complexities in managing a business. Seeking professional advice and outsourcing at the beginning can save time, money, and peace of mind.

Business Development

Once you have set up or joined your RIA, the next task is managing and developing your business. What kind of practice do you want to build? How will you differentiate your firm from others? What is the best way to market your services? Often it is difficult to step back and objectively look at your practice. It is easy to get caught up in doing things a certain way because we have always done them that way, not because it makes good business sense. What we need is an objective third-party overview to help us reshape our priorities. Such coaching services are available from industry experts who have helped many firms. One such coaching firm, Advisor Solutions Network, provides coaching in practice management, client relationship management, generating referrals, and impact marketing. It has helped advisors differentiate themselves by creating unique marketing materials and publishing books. AKAdvisory Services helps RIAs with marketing, branding, and Web design, as well as training staff in compliance and risk management.

In deciding whether to utilize these services one has to weigh the upfront cost against the anticipated long-term benefit.

Products and Services

Once you have established your brand and your business type, the next challenge is to determine what products and services to offer.

One of the biggest challenges advisors face is trying to provide customized solutions for clients in this volatile and confusing market environment. Twice in the past 10 years the equity markets have given back 50 percent or more of their value. For the 40-year period 1968 to 2008, bonds have actually outperformed stocks. Modern portfolio theory is under attack and target date accounts seem to have missed their targets.

In the wake of the recent market collapse, the largest RIAs are re-examining risk assumptions and asset allocation...
models. Target date allocations to equities are being scaled back while 401(k) offerings are exploring minimum income guarantees either through annuities or stand-alone life benefits. In addition, many firms are looking at alternative investments such as hedge funds because long-only, buy-and-hold strategies have come under pressure.

How can a small RIA compete in this environment? Where will you get the time to research funds, separately managed accounts (SMAs), and alternative investments? Outsource.

As product offerings have become more complex in the past decade, even the largest RIAs have outsourced some labor- or technology-intensive responsibilities to third parties in order to compete with the large wirehouses. When Smith Barney introduced the world to mutual fund wrap with preset asset allocations and automatic rebalancing, it was not long before competitors such as Prudential and PaineWebber followed with their own offerings. LPL was already an industry leader with strategic asset management (SAM), but most other RIAs outsourced to SEI, Lockwood, or Brinker Capital.

As demand for sophisticated product grew, providers emerged to provide them, and the turnkey asset management program (TAMP) industry was born. Not to be outdone by the success of mutual fund wrap programs, the SMA industry began to develop similar offerings. Citigroup introduced the world to the multiple discipline account (MDA) and was smart enough to trademark the name. Similar to mutual fund wrap products, MDAs provided asset allocation based on risk assessment and automatic rebalancing utilizing multiple separate account managers in a single portfolio. While similar in concept to mutual fund wrap, an MDA required major back office support to identify which securities belonged to which manager, provide trading coordination among the various sleeves, and an overlay capability to ensure that it all worked smoothly. As Citi's competitors scrambled to create similar products, they discovered that they couldn't use the term MDA, and a new alphabet soup of product offerings included multiple strategy portfolios (MSP), consults diversified portfolios (CDP), etc. These products were so complex that even the largest platforms needed to outsource some of the back office responsibilities, especially overlay. Lockwood and SEI hired Parametric. Smith Barney retained Placemark (initially), and Brinker utilized Ixis.

The next logical step in sophisticated product offerings was to combine mutual fund wrap and MSP into one account called a unified managed account (UMA). This required even the largest RIAs, banks, and regional brokerage firms to outsource to TAMPs much of the back office function. This demand in turn has enabled the TAMPs to expand their offerings and provide services to small RIAs at a competitive cost. This is good news for the independent RIA because now they can offer the same sophisticated product solutions as the largest firms.

Among the most popular TAMPs are Prima Capital, PNC Managed Investments, Brinker Capital, and FolioDynamix. While each offers similar services, they diverge in their abilities to provide customized solutions based on the marketplace they seek to serve. **Prima Capital.** Prima Capital provides wealth management solutions for banks, regional firms, and larger RIAs. Its technology delivers custom applications directly to advisors’ desktops, providing instant online access to timely information. Prima collects, verifies, and manages product data including returns, holdings, process descriptions, composite disclosure, and manager commentary. In addition, it provides a research application with extensive toolsets including search engines, product comparisons, simulations, model construction, and product alerts. Also available is a proposal-generation tool that allows advisors to evaluate existing and proposed portfolios.

Prima also offers research, due diligence, advice, and monitoring. Prima’s research analytics and due diligence process can be applied to separately managed accounts, mutual funds, exchange-traded funds, and funds of hedge funds. The process includes both quantitative and qualitative analysis so advisors are equipped to provide clients with timely communications, forward-looking opinions, and actionable recommendations.

Prima provides advisors with the ability to create customized portfolios that include institutional-quality asset allocation, best-of-breed solutions across multiple investment products, and an open architecture platform. In addition, advisors and clients benefit from fees and account minimums negotiated by Prima.

**PNC Managed Investments, formerly known as ADVISORport.** PNC is among the largest TAMPs providing services to the RIA market. Started in 2000, it serves more than 60 firms including banks/trust companies, broker-dealers, money managers, and insurance companies in addition to RIA/wealth management firms. PNC has built its reputation on its technology and was among the first to offer a fully functional UMA.

PNC provides scalable managed account technology and operational services. Leveraging its open architecture technology, it can integrate UMAs, SMAs, mutual fund wrap, MSP, and fee-based brokerage into a single client solution.

PNC provides research and investment advisory services including manager research, asset allocation, and performance reporting in a streamlined process that helps advisors simplify client-wealth management. Other services include client profiling, customized asset allocation, product selection and integration, automated proposal generation, investment monitoring, and
As the industry continues to evolve and unified managed household accounts become more popular, leveraging technology and outsourcing will be critical if advisors want to continue to grow their practices.

As clients age, advisors must spend more time focusing on portfolio distribution. Years are spent helping clients accumulate assets for retirement, and many tools have been developed to aid the advisor in that phase. But what about distribution? What is the best way to withdraw income, which accounts and assets should be utilized, and in which order?

Picking the best assets to sell to maximize cash flow can be time-consuming and tedious. This is especially true if the client has both taxable and tax-deferred accounts.

The advisor retains control of the client relationship, consulting, and planning functions, then communicate portfolio management needs to FDx via the client investment policy.

Summary
As the industry continues to evolve and unified managed household accounts become more popular, leveraging technology and outsourcing will be critical if advisors want to continue to grow their practices. It will enable them to spend more time with existing clients and developing new relationships while minimizing tedious, unproductive tasks.

Which tasks should be outsourced and to whom? It depends on your practice and your own capabilities. How do you determine which vendor or vendors to use? Ask the vendors themselves which services can be integrated. Talk to your peers. Participate in online forums and attend industry functions sponsored by IMCA, the Money Management Institute, and financial planning organizations.

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