Building a Successful Model-Based Practice

Advisors today are being asked to do more than ever for their clients. Financial planning, investment management, and client service are all part of the required service package, yet each is essentially a full-time job. Investment management is potentially the key practice area where efficiency gains have the most potential to free up time while not diminishing the value being delivered to clients.

Growth and Benefits of Model-based Advisory

One of the most transformational trends in wealth management today is the adoption of investment models by financial advisors. According to a Cerulli study,[1] more than 55% of surveyed top-ranked advisors are utilizing models in some way in their practice.

The use of model portfolios has grown rapidly in recent years and now accounts for $4.9 Trillion[2] in assets, largely due to the following benefits for advisors and their clients, including:

Positive Client Outcomes

Model portfolios have typically provided more predictable results, including significantly less volatility compared to advisor-managed portfolios.[3]

Significant Time Savings

Advisors using models save an average of 400 hours a year in investment management and trading activities.[4]

Higher Asset Growth

Advisors who use models have grown their assets at twice the rate of those not utilizing models.[5]

Added Business Value

Model usage creates scalability and a streamlined operating model for the advisor's practice, allowing for a potential higher sale multiple upon exit.

Improved Client Outcomes + **Streamlined Practice** + **Asset Growth** = **Higher Business Valuation**

Barriers to Broader Model Adoption >

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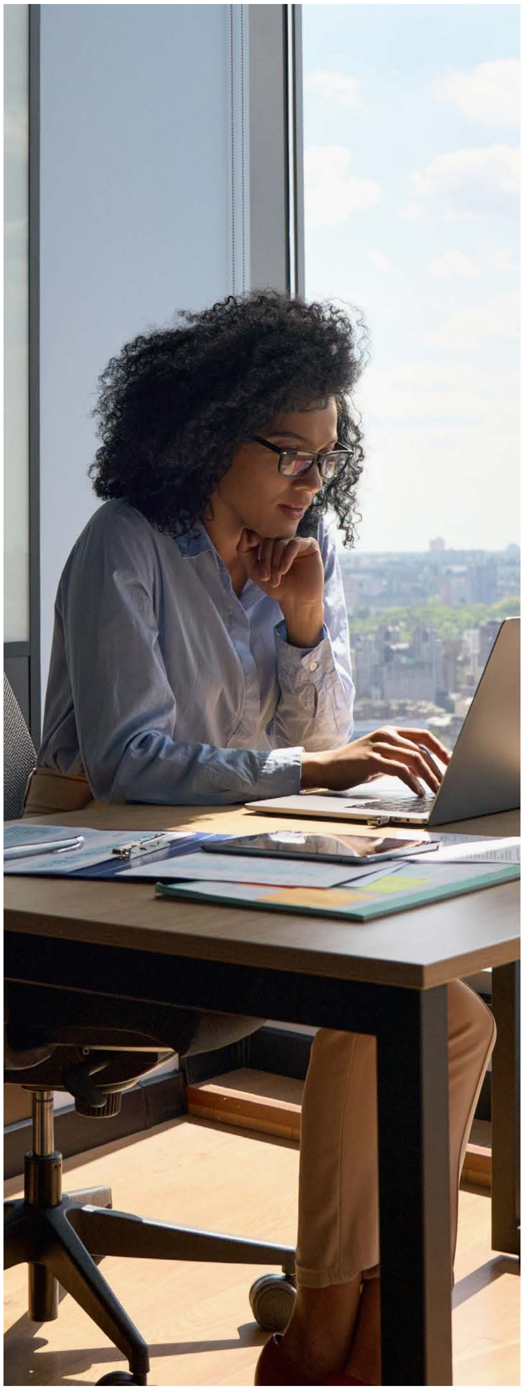

Despite all the benefits listed on the previous page, most advisors still have tremendous untapped potential to further apply models to their practice. Today, most model usage is across small tax-deferred accounts, with an average account size of $75,000, and less than 30% of model portfolios are in taxable accounts.[6] According to an Ignites study,[7] only 26% of the largest advisors think investment management accounts for more than half of their value proposition, illustrating why many have an increasing comfort level with outsourcing investment functions. However, results across various studies indicate that most advisors who use models have still not yet developed a truly model-based practice, depriving them of the full benefits of improved client outcomes, time savings, higher asset growth, and increased business valuation.

We believe the key barriers to broader usage include:

- 40% of advisors believe **model usage detracts from the individualized value** they provide clients[8]
- The **difficulty of transitioning taxable assets** is a top barrier to model use for non-qualified accounts[9]
- 26% of advisors are concerned that **models can't meet the unique needs of their various clients**, and only 4% who use models use pre-packaged models as they come[10]
- With as many as 10,000 models in the market, it can be a **daunting task for advisors to research and select the right models** for their clients

In summary, despite the many potential benefits of using models, we believe adoption is limited as many advisors are not willing to give up investment expertise as a part of their value proposition. In addition, most model platforms do not have key capabilities for model-selection, customization, and tax management.

Key Ways to 'Own and Operate' Model Portfolios >

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1. Customize at scale

While 40% of advisors fear that model usage could detract from their value proposition, the vast majority of advisors who actually use models are customizing them to some degree. The difference may be the perspective embraced by the latter group – "control your models, don't let them control you."

Many advisors claim or desire to offer bespoke portfolios for their clients, yet in reality, most advisor books of business can be segmented by client types and size, with common investment objectives and desired investor outcomes. Whether you are using third-party models, customizing those models, or building models from scratch, it is essential that the models tie to these intended objectives and outcomes. Therefore, it is still possible to provide differentiated solutions through a range of models targeted to each client's investment philosophy.

Advisors now have access to capabilities to personalize at scale by applying modular overlays such as tax management and risk management and/or customization through security replacement and household level allocation. This can enable an advisor to utilize a model-based approach across more of their business.

Advisors can use client segmentation to create a tiered offerings and curate a mix of models utilizing:

- Third-party or home office models
- Models with modifications for advisor preferences and client-specific needs
- Completely custom models

Key Ways to 'Own and Operate' Model Portfolios >

2. Co-sourcing: an innovative solution for the build vs buy dilemma

To capture the full benefits of a growing, model-based practice, advisors can leverage third-party technology and investment capabilities to outsource many functions of the investment process – including portfolio monitoring, tax management, and trading – while retaining control of the areas they believe are important to them – such as investment selection and model design. Advisors can now solve their buy vs build dilemma when choosing models by combining the best features of both. Intelligent automation through co-sourcing can offer:

- Greater consistency in monitoring, rebalancing and tax-smart trading
- Advisor-branded analytics and proposals highlighting the value of "your" models
- Model maintenance, customization, and overlay features

Examples of advisor-branded communications offered through smart technology:

→ Model benefits, such as estimated fees or estimated taxes saved

→ Progress toward portfolio tax transition

→ Trade updates

→ Commentaries

3. Demonstrate where you are adding value

With the dramatic growth of ETFs and the rise of robo-advisors, clients can get a well-balanced portfolio that meets their core portfolio objectives for 0.25-0.50% in annual fees. To justify their fees to clients, advisors must offer more value, such as advanced investment capabilities such as tax-smart-transition and tax management, as well as non-investment-related activities, such as financial planning.

We believe advisors are only capturing some of the potential benefit of using technology to deliver these features unless they can demonstrate the value to their clients. A model-based practice can now provide advisor-branded investment models that can be supported with automated, branded communications and reporting to reinforce value across visual and auditory mediums.

Many top advisors have adopted models as a key component of their practice.[11]
Using technology and intelligent automation to deliver customization at scale, tax management, and communication of model benefits to clients enables advisors to increase their investment brand and grow their practice, while better meeting their client needs and desired outcomes.

Your Practice: Powered by 55ip

55ip offers a model adoption platform designed to help improve outcomes for advisors and their clients. By partnering with 55ip, advisors are empowered with a simple user experience and intelligent automation for model delivery including design, selection, customization and tax-smart transition and trading.

55ip seeks to solve the advisor's dilemma: buy or build your investment models?

Outsourcing investments
- Lose ownership & brand
- Lack of customization
- High fees

Build and maintain in-house
- Manual processes
- Inconsistent performance
- Time away from clients

VS.

Co-sourcing with 55ip
- Advisor-branded strategies
- Enhanced value proposition
- Customization and tax management

Intelligent automation powered by 55ip
- Portfolio design and delivery
- Automated monitoring and trading
- More time with clients

Let's Connect

To contact the Advisor Success Team or request a demo, please visit **www.55-ip.com**

Disclosures

55ip

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Past performance does not guarantee or indicate future results and there can be no assurance that any return objectives will be met. No representation is made that any investor will, or is likely to, achieve the intended results. All investments involve risk, including loss of principal.

Footnotes

1 Broadridge Financial Solutions Cited in the Wall Street Journal "Model Portfolio Assets Hit Record High" November 24, 2021

2 Cerulli U.S. Asset Allocation Model Portfolios 2021

3 "Advisor as Portfolio Manager vs. Fund Strategist over a 3-year period", Envestnet, November, 2017

4 Time savings estimation assumes 20% time savings x a 45-hour work week x 50 weeks per year = 450 hours saved Cerulli US Asset Allocation Model Portfolios 2021

5 "A Data-Backed Solution to Building a More Profitable Advisory Business," SEI Advisor Network and FP Transitions, October 2016

6 Data from TD Ameritrade Institutional Model Market Center – Link Conference 2020

7 Modernizing National Accounts Strategy for Model Portfolios, Ignites, October 2019

8 Ibid

9 Advisor survey from Top 10 model manager, 2020

10 Modernizing National Accounts Strategy for Model Portfolios, Ignites, October 2019

11 Ibid

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