Capitect

REBALANCING REINVENTED:

A PERSONALIZED APPROACH FOR MODERN PORTFOLIO MANAGEMENT

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INTRODUCTION

Welcome to the first of an industry series of actionable content from Capitect designed to help advisors continue to succeed in the new wealth management environment.

It's no secret that there is massive change happening in the financial services industry, most specifically in wealth management. Shifting consumer expectations, technology advancements, a heightened regulatory focus combined with a more complex and competitive operating environment is putting pressure on all players to redefine their business models to meet these changes and challenges.

Particularly for financial advisors, the past ways of developing and managing portfolios is rapidly becoming commoditized. With the movement to passive investing and the emergence of low-cost robo advisors -- not just from the VC backed upstarts, but from the major brands such as Schwab, Fidelity, Vanguard, and Blackrock – investment management is heading to zero basis points, and in some cases, it is already there. Schwab's robo, for example, is now free.

Thus, to remain relevant and protect their 1% fees, advisors need to re-think their value propositions and better articulate and communicate their differences from the robots and discount brokers.

Despite this focus on technology, investors still want to have a human component for the very personal nature of planning and investing to meet their long-term goals and objectives. This personal relationship aspect is a key area for advisors to grow, compete, and succeed -- wealth management still remains a relationship business. To reinforce this competitive advantage of having a personal relationship with their clients, advisors should take a personalized approach to the investment services they provide.

By going above and beyond model portfolios, advisors can provide a more personalized approach to the portfolios they build, creating unique portfolios for each and every client, tailored to their needs, situation, and goals. Historically, this approach simply did not scale and led to the industry relying on assigning clients to one of a half dozen model portfolios.

However, now with technology innovation, elegant user interface design, and a new way of thinking, advisors can deliver personalized, unique portfolios to every client in a scalable way. Accordingly, this report will discuss the parameters for these issues, put forth a new model for portfolio construction and rebalancing, while articulating the benefits for advisors and their clients, so advisors can remain primary in their clients' lives.

INDUSTRY CHANGES

One of the most glaring shifts in the wealth management industry in recent years is the movement towards passive investing. In the first half of 2017 alone, $500 billion of assets have moved from active managed funds to passive, as 90% of active managers continue to underperform their benchmarks.[1]

Fueling this trend towards passive investment is the onslaught of new technology-enabled "robo" advisors. What started as a novelty nearly 10 years ago when the first robos entered the scene, investing automation has now ballooned, gaining traction from the large ETF asset managers and discount brokers. Schwab and Vanguard are now bundling in phone-based CFPs for ongoing planning advice at alarming price points of 28-30 basis points. Vanguard, for example began 2015 with $7 billion in robo assets, growing to $51 billion in 2016, and is set to crest $100 billion in 2017.[2]

Another compelling trend is the ongoing fiduciary movement towards fee-only advice. While the DOL's fiduciary rule remains uncertain, the industry has moved forward in reconstructing many of the investment programs and products, while encouraging advisors to begin re-papering clients with fee-based programs, transitioning away from commissions.

From the client experience front, investors are expecting a digital interaction and self-service approach. According to a study by global consulting firm, Cap Gemini[3], 64% of

1. https://www.bloomberg.com/quicktake/active-vs-passive-investing
2. https://www.fa-mag.com/news/the-vanguarding-of-the-roboadvisors-has-only-just-begun-33901.html
3. http://www.capgemini.com/resource-file-access/resource/pdf/self-service_in_wealth_management_whitepaper_2014.pdf

affluent individuals, including high net worth investors, expect their future wealth management relationship to be digital. Additionally, 65% of affluent individuals, including high net worth investors, will leave their wealth management firm if an integrated technology experience is not provided.

As a result of these macro trends toward lower costs, commoditized investment programs, and investors looking for a digital experience, financial advisors will be challenged to remain relevant.

If an advisor is simply offering asset allocation advice through a small number of model portfolios, they soon will be marginalized. It will become increasingly difficult for advisors to differentiate themselves and their value proposition in order to charge premium pricing for what is rapidly becoming a commodity.

Additionally, many advisors are stuck on manual processes via Excel spreadsheets or are using their custodian's simple technology for portfolio construction and rebalancing, limiting their ability to scale, grow and harness the operational efficiencies needed. Many have not adopted the latest client experience technologies that today's investors are demanding so that they can see how their portfolio is doing on any device at any time – something they are rapidly being accustomed to via the success of Apple, Amazon and Google.

Although the ability to "get it now" at the swipe of a finger is the new consumer expectation that is now extending to their financial services providers, the wealth management industry continues to lag in this area.

A NEW VISION FOR REBALANCING

What is needed then for advisors to defend their competitive advantages, differentiation, and ability to charge premium pricing is a new technology and methodology for building and the ongoing rebalancing of portfolios.

The industry has been understandably defaulting to cookie-cutter model portfolios for years to gain scale and operational efficiencies. Even now with the shift to automation, robo advisors, and "model marketplaces" being introduced by big asset managers, the industry seems stuck with the model portfolio approach.

This emphasis on model portfolios is creating an opportunity for advisors to do something different. By going above and beyond model portfolios, advisors can take portfolio management to the next level and make their offering truly personalized.

According to Bill Harris, founder of Personal Capital, “Ten years from now, mass personalization will be the dominant way that financial advice is provided.”[4] Harris and other technology leaders believe that the industry needs to move away from being product-centric to becoming people-centric. Other technology industry innovators agree that personalization is the wave of the future in financial services. When asked what will be the most important selling point for Betterment to differentiate and succeed in the crowded field of robo advisors, Betterment’s executive team all agree that “personalization” will win the day.[5]

Accordingly, the time is now to re-think how client portfolios are constructed and rebalanced. With today’s new technologies and methodologies, building and rebalancing of portfolios can now be enabled at the individual level, through a series of dashboards, controls, and automation tools to gain efficiencies and scale.

For most advisors, their existing rebalancing platforms are either cumbersome to use or are too simplistic to handle the many aspects of rebalancing, and change is needed. Regardless of what is available, all rebalancers typically default to a model portfolio approach, which is not personalized down to each client’s unique situation, leaving advisors exposed to low cost, commoditized competitors.

Through advanced technology, however, a new methodology and platform is now available to customize portfolios and tailor them specifically and uniquely to each client’s individual situation, goals and objectives. By combining an easy to use, intuitive interface with sliders and “infinite drill downs” available via just a few clicks, advisors can now systematically drive mass personalization across their entire book of business to create customized portfolios for each and every client.

4. https://www.financial-planning.com/news/digital-advice-leaders-tell-financial-industry-to-get-hyperpersonal
5. https://www.fastcompany.com/40442080/robo-advisor-betterment-is-on-a-personalization-push-as-it-surpasses-10-billion-in-aum

The benefits are many – advisors now have a communication platform to explain why their value-added approach is better and more personalized than the robots, discount brokers, and model marketplaces. This enables advisors to maintain their premium pricing and long-term profitability through a new, more powerful investment service deliverable.

Additionally, the operational efficiencies gained through a scalable platform that can deliver personalized portfolios and rebalancing will enable firms to continue to grow their businesses, without adding costly overhead, making them more productive, streamlined, and efficient.

From a compliance point of view, having an operational system that delivers consistent and personalized investment management services will be critical to meeting new fiduciary standards and will rapidly become the new standard for delivering portfolio management services.

ENTER THE CAPITECT PLATFORM

Portfolio Architect:
Advisors can digitize their investment strategies using any number of asset classes and sub-asset classes, which allow for “infinite drill down.” Via fully customizable sliders, advisors can calculate, display, and customize portfolios to each client’s circumstances, goals and objectives.

Rebalance Architect:
Whether an advisor has 10 or 1,000 unique target portfolios, advisors can automatically monitor client portfolios relative to each of their targets, using customizable drift tolerances. Advisors can then calculate, review, over-ride, aggregate and allocate trades before submitting them to their custodian.

CONCLUSION

As the industry continues to be impacted by big changes from new technology entrants and shifting consumer expectations, financial advisors have the unique opportunity to return to their roots and double down on personalizing their services. By enhancing their investment management processes to go above and beyond simple model portfolios to create truly personalized portfolios for each and every client, advisors will be able to continue to differentiate their services, while maintaining their premium pricing.

These new technology innovations and processes being pioneered by Capitect can be the key initiative advisors take to remain primary in their clients' lives. But don't delay, technology innovation waits for no one. Advisors owe it to themselves, their clients, and their businesses to find new ways to harness the latest technologies to not only survive industry change, but to thrive from it. We welcome you to learn more at www.capitect.com.

ABOUT CAPITECT

Founded by a successful advisor, the Capitect platform provides a technology solution to streamline the portfolio construction and rebalancing process through advanced engineering and innovative design. Going above and beyond simple model portfolios, Capitect enables advisors to deliver personalized portfolios unique to each client's circumstances, goals and objectives using the advisor's own investment strategies. Capitect's complete solution includes mobile-friendly client portal and reporting, portfolio construction tools that allow for infinite drill down and customization, and ongoing rebalancing technology and services. Embraced by leading advisors and integrated with the industry's leading custodians and technology applications, Capitect's sophisticated technology is disrupting traditional portfolio management approaches. To learn more, visit us at www.capitect.com.