

## Interview: Smartleaf Sets Out To Measure Effects Of Workflow Processes

**Harriet Davies**  
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Smartleaf, a provider of overlay portfolio management technology, is turning its attention to documenting the effect of different workflow processes on factors such as tax management and the dispersion of returns amongst client portfolios, the firm's president, Jerry Michael, tells Family Wealth Report.

"Early adopters of UMA and overlay were often motivated by a desire to become 'open architecture'. Today, the primary drivers are the desire to increase efficiency, consistency and customization. Being open architecture is less a differentiator and more the new normal," explains Michael.

One of Smartleaf's "end goals" is that "having access to UMA and third-party models is so easy it's just something in the background." It should be "simply there" and not the special focus, he adds.

The firm now has some \$50 billion assets on its platform, up from \$35 billion just over a year ago. Meanwhile, Smartleaf is focusing its energy on measuring the impact of the different ways firms use its platform in terms of "traditional" versus "modern" workflow processes.

"We're turning more and more attention to measure the value of this," says Michael in an interview.

In both cases a models-based approach is being taken through the Smartleaf platform; the difference is in the details of how the rebalancing workflow is carried out.

The comparison is between a "traditional workflow," where portfolio managers implement a two stage approach of daily implementation of model changes combined with periodic general rebalancing to correct security level and asset allocation drift, and a "modern workflow," whereby the manager keeps the portfolio in continuous equilibrium that jointly considers model changes, security level drift, asset allocation drift and taxes.

"There's evidence at the anecdotal and case study level" that this makes a difference, he says, citing one advisor-client who, having changed his work flow process, moved from spending one-and-a-half hours with prospects and clients per day to four-and-a-half hours. "The level of tax management and reviews has gone up...that, in a nutshell, is what we're after," he adds.

To take this further though, the firm has examined usage patterns on a statistical level. Smartleaf compared a total of over 8,000 accounts managed through its platform, 7,780 of which were managed using "trade-off logic" – where asset allocation and tax matters are continually taken into account – and 634 managed in the traditional way.

As it happened, the vast majority of trade-off accounts were rebalanced by managers in the field while traditionally rebalanced accounts tended to be rebalanced by a central group.

What Smartleaf found was that a modern workflow process cut portfolio dispersion by over half on average and lowered taxes by 60 basis points. (Dispersion is a measure for the statistical distribution of portfolio returns within a comparable client group.)

"The results are dramatic," says Michael. "[It's] the same system but used in radically different ways."

This is important because if you have similar clients, for example in terms of investment goals and wealth levels, “you want them to have similar experiences,” says Michael.

When asked whether the firm is going to its clients with these findings he says it is keen to share them but at the same time “there are reasons why people might want to stick with a particular workflow so it would be an oversimplification to simply conclude that the modern workflow is better.”

#### Achieving consistency

Part of the appeal of this idea is consistency. When clients are choosing a wealth manager, it can be hard to draw comparisons on issues such as returns as so many factors come into play: taxes, fees, timing to implement ideas, the risk inherent in various allocations.

In theory, if factors such as tax management, the timing of implementing strategies and asset allocations can be delivered with more consistency, there could be room for more direct comparisons about what wealth managers are actually achieving in terms of performance for their clients.

Michael agrees that this kind of technology should “make it easier to implement the market beating ideas,” as one of the complaints he’s heard from advisors in the past is that it used to take “somewhere between two weeks and never to implement ideas.”

#### The future for Smartleaf

For its part, the firm originally mostly worked with banks “when they needed to transfer to open architecture,” Michael explains. At that time “there was a particular need; a particular solution,” he says, whereas now he sees the business’s next step as widening its focus to different types of wealth firms and measuring the gains that can be achieved.

“RIAs have an interest in spending more time with clients while still providing high levels of customization– that’s a natural growth market,” he adds.

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