10 Reasons to Change Your Practice to Grow Your Revenue

By David Haviland, Managing Partner and Portfolio Manager

Every investment advisor has to make a choice when running a financial advisory practice: Do I manage my client's investment portfolios myself or do I hire someone to do it for me? Almost every broker-dealer we work with has asked us to address this topic due to rising compliance concerns, but I've chosen to do it for a different reason: you, the advisor.

Prior to starting BCM, I've spent my entire 35-year career as an Investment Advisor/Wealth Manager. When I joined my dad in the early 1990s, we used outside managers knowing, as a small shop, we didn't have the time or resources to do it all (and do it well). Yet when an advisor works for a larger firm, especially one that provides research and other resources, a false sense of security often develops, leading advisors to believe they also have time to play the role of portfolio manager (PM)…and do it well. However, study after study proves that as a whole, advisors acting as PMs for their clients significantly underperform the markets. Whether you agree, or your performance is better, please don't miss the point…

What about your business's health and ***your revenue stream?***

Thinking back to the reasons my dad and I made the decision to outsource investment management nearly 30 years ago, the list became quite long. So, let's keep it short and to the point. Here are the top 10 reasons to consider outsourced management:

1. Efficiency and Service.

Manual review of accounts is time consuming, and advisors often spend the same amount of time on a $50,000 account as they do on a $1,000,000 account. Can you justify spending 20x more time (your time is an asset!) on an account that will provide you with 20x less revenue? Using outside managers, especially for these smaller accounts, allows you to focus on higher-revenue accounts and provide a deeper level of service to your larger, more profitable clients. This way, all of your clients get the same requisite attention and service they deserve while your revenue can increase.

2. Research and Resources.

Most successful management firms have teams of CFAs to support successful portfolio management–researching, selecting, and monitoring individual securities is a full time job. Even if your firm provides research, do you have a team to help you decipher it all and build strong portfolios with appropriate risk and reward characteristics?

3. Performance and Fees.

Do the math –how much additional AUM would be required if you outsourced half of your book? This of course assumes that you aren't passing the manager's fee through to your clients. If you can pass the fee through to your clients, would most of them prefer to sacrifice a few basis points per year to feel protected from what could amount to 10x those losses in a 2008-like market environment? The right outside manager can help with this.

4. Time Away.

Whether it's to visit larger clients, attend a conference, or take a well-deserved vacation, there will always be times when you need to get away. Who is authorized to watch your book and take action should something in the markets change? Who will invest that new cash on a dip, or sell if markets deteriorate quickly? Will a teammate take care of their own book first?

5. Emotion.

We're all human and experience varying bias and emotion, especially if our business is on the line. After a few or more clients call during a market dip, do you succumb to their emotions? Have you ever sold at the worst time and waited to buy back in? Would a disciplined, rules-based investment system make more sense to keep you from making these emotion-driven decisions, help protect your clients and maintain your revenue stream?

6. Expense Ratios.

Do you use mutual funds? If so, your expense ratios are likely higher than you might realize. In fact, many '40 Act mutual funds do not report their trading costs in the expense ratios advertised to you and your clients. Look it up on www.personalfund.com. Most funds' total expenses double, or more, when you include trading costs. This makes the 20-50 basis points of an active SMA manager look appealing, and could save your clients a pretty penny on fees alone.

7. Liability.

As an investment professional, you are bound to the fiduciary duty to act in your client's best interests. Be honest - have you ever missed a cash deposit or forgotten a trade? Have you ever faced a client complaint or lawsuit? When you use outside management, much of this liability falls on the manager.

8. Trading.

If you are looking to buy or sell a particular security across any number of client portfolios, all client accounts should be traded at the same time and be priced as part of a larger block. These large block trades tend to get better execution, especially when trading ETFs. You have a responsibility to your clients to trade fairly and with precision. Proper trading of securities can add significant value over time, but this requires an expert. Do you have this expertise?

9. Manager Supervision.

When you are a Rep as PM and you don't meet client expectations, you are at risk of being fired. When you use outside managers, you can act as an expert liaison for your clients; hiring firms you believe will provide the best management for their situation and firing those who underperform. Clients like expertise, and engaging one or more managers allows you to differentiate yourself as an "expert of experts". For example, you can hire growth managers that have tactical systems in place that seek to avoid large drawdowns.

10. Growth of Your Practice.

Time is your most valuable asset. Nothing else comes close. Your business practice requires time to garner more prospects, solidify relationships with clients and increase AUM. As an investment advisor, you must ask yourself if your time is more valuable spent producing revenue or reviewing and managing investment accounts – especially smaller accounts. In short, is it worthwhile to hire a manager if it frees up your time and helps you grow your practice and revenue?

It's a new year and between the impending implementation of the DOL rule, Broker Dealer consolidation and advances in sound practice management, there are opportunities before you. Do you want to be an asset manager or an asset gatherer? Would you prefer to spend your time monitoring securities and reviewing statements, or prospecting and managing client relationships? What makes you more revenue? If you want to be an asset manager, you may be in the wrong position, or may need to build out a bigger team to support those efforts. If you want to grow your revenue and keep more of your hard-earned money, make the choice.

Don't overthink it–***are you a PM or an RM?***

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