



RISKALYZE WHITE PAPER

Trading Automation vs. Traditional Rebalancing

What's the Difference?

INTRODUCTION

As advisors build out their core client services, they're faced with an important question: Which services should we insource, and which ones can we outsource?

According to recent research, it's a question that will come up more often if advisory firms continue on their current trajectory. In 2013, the typical firm provided about nine different services to clients, but today most firms provide up to sixteen routine services.¹

The insourcing decision can look different for each firm, and for each type of service they offer. Advisors who want to find an immediate way to recover inefficient time should start with trading and rebalancing.

The average advisor spends 5.5 hours a week on investment management, which includes trading tasks.² If that number could just be cut in half, advisors would gain more than ten hours a month for retention and business development-related activities instead.

As a quick caveat, the question of insourcing or outsourcing rebalancing tasks isn't relevant for advisors who have already decided to fully put their investment management services in the hands of a TAMP. Firms like Brinker Capital, SEI, Envestnet | PMC, and AssetMark provide a proven model for growth-minded advisors who want to focus on finding and onboarding new clients.

Many TAMP-affiliated advisors use and love Riskalyze for client engagement, portfolio analytics, proposals, and of course, the Risk Number®.

According to our data, about 26% of our advisors use a TAMP for investment management.

For this white paper, we are interested in what trading looks like for those advisors who choose to insource their portfolio management, and how they can create a more efficient process for serving their clients.

Once an advisor has decided to keep this part of client service inside their firm, choosing how to manage time becomes essential. If a firm manages trading within their four walls, making the right decision at the right time becomes critical—especially considering that 45% of advisors' clients have said that better investment performance is their chief concern.³

¹FA Insight, Outsourcing: Striking the Right Balance Between Customization and Efficiency. 2019 white paper.

²How Do Financial Advisors Actually Spend Their Time And The Limitations Of Productivity? <https://www.kitces.com/blog/how-do-financial-advisors-spend-time-research-study-productivity-capacity-efficiency/>. March 18, 2019.

³FA Insight, Outsourcing: Striking the Right Balance Between Customization and Efficiency. 2019 white paper.

The 5 Differences Between Rebalancing Technology and Trading Automation

Trading automation is a new way of thinking about managing accounts, implementing decisions, and keeping things on track in the long run. Here are the five key ways it differs from traditional rebalancing technology.



Leverage an Intelligent Inbox Design

Trading and rebalancing systems are descendants of the tool in every advisor's arsenal: the spreadsheet. As such, they were initially architected to replace a spreadsheet, and interfaces aren't optimized for surfacing decisions to review and approve.

Trading automation is built like an intelligent inbox that allows advisors to click or swipe to make smart investment decisions for their clients with at-a-glance information that's easy to read. It's a much more powerful model than a rebalancer, allowing advisors the ability to review and approve trades to make decisions efficiently and rapidly. Whether you're approving trades or snoozing actions to address them later, you're quickly working your way toward the wonderful feeling of "inbox zero."



Focus on What Matters

Rebalancing software surfaces on the mechanics of trading and focuses advisors into the minute details of trades. The problem is that advisors are rarely dealing with 10 trades at a time—it's often more like 1,000.

Trading automation pulls the advisor up a level, away from the mechanics, and into the client fiduciary decisions layer. It intelligently surfaces the right information to allow advisors to make the right decisions in client portfolios at the right time. This is where advisors ideally should live within their technology, because they want to be driving the car, not tinkering with its engine.



Avoid Unnecessary Trades

Rebalancing technology lives by a set of rules, and those rules are often focused squarely on allocations. When a model is assigned an account, the software looks at the existing tickers compared to the tickers in the model, and if they don't match, it does whatever is necessary to get the account aligned with the model. This is a fine strategy in theory, but in practice, it can produce undesirable trade costs and tax ramifications.

Trading automation looks at more than simple allocations with an intelligent logic that includes an account's Risk Number. If the Risk Number of the existing portfolio is in tolerance with where the client wants to be, then trading automation can intelligently hold off on generating unnecessary trades and incurring additional costs and taxes simply because the allocations may not precisely match.

With trading automation, you don't need to trade from a Risk 55 to a Risk 55, unless you really want to.

Act II: Make Fiduciary Decisions with an Intelligent

Trading Inbox

Trade lists generated by Autopilot will live in the Trading Inbox, along with any important actions the system wants to bring to your attention. Autopilot puts these decisions in front of you so you can take action (or snooze the recommendation to address later) with just a click. Here are some of the more common reasons accounts may need attention:

The screenshot displays the Riskalyze Trading Inbox with the following data:

Alert Type	Account Name	Current Risk	Target Risk	Account Type	Phone Number	Assets	Trades	Actions
Risk Number Drift	Anthony Fritsch	72	63	Individual	95603-3284	\$103,545 AUM	2	🕒 ✓
Model Changes	Leah Snow	81	80	Individual	23948-5899	\$5,115,095 AUM	-	🕒 ✓
Risk Number Drift	Markus Skinner	42	40	Individual	9324890-4398	\$938,725	11	\$1,571 EST CAP GAINS 🕒 ✓
Risk Number Drift	Bob Beugler	33	30	IRA	8675309-8280	\$3,423,321	15	🕒 ✓

An orange 'SNOOZE ALL TRADES FOR THIS ACCOUNT UNTIL...' button is visible over the Anthony Fritsch account, with a dropdown menu showing options: Tomorrow, Next Week, Next Quarter, Next Year, and Specify a date...

Autopilot Activated: Whether an account is new and needs to be traded after it's been opened/funded, or a current account in Riskalyze needs to be traded for the first time using Autopilot, this is where we'll execute the trades needed to start things off on the right foot.

Cash Management: When clients make contributions to an account, or you request an account be rebalanced to raise cash, Autopilot will calculate the necessary trades required to spend the cash deposited, or raise the cash requested.

Target Updated: Make a change to the holdings in a client's account? Autopilot captures how to get from point A to point B and queues up trades for your approval.

Model Updated: Are you subscribed to models in the Riskalyze Partner Store? When you tap into the free research in the Riskalyze platform, you get to accept, edit, or ignore an asset manager's changes to a model portfolio. Making a change to your models will prompt some trade decisions in your dashboard as well.

Risk Number Drift: Gone are the days of making unnecessary trades based on target asset allocations. Riskalyze analyzes all Autopilot-enabled accounts every night for the movement that matters: Risk Number drift. If an account moves more than six Risk Numbers off of target, Autopilot will surface some approvals to get it back into alignment.

Once you get a trade list in traditional rebalancing software, it's not the end of your work—it's only the beginning. Most advisors make adjustments and hand-picked changes at this stage. But when you have 300 trades to review, your efficiency is toast.

The trades that Autopilot surfaces aren't designed for manipulation, they're designed for action. With intelligent trading logic that accounts for estimated taxable gains and trade minimums automatically, the details have been ironed out for you so you can check the changes and critical information like taxable gains, and then get on with your day and back in front of clients instead of behind your computer screen.

Once your review is done, sending trades to a custodian is as simple as adding an order to your cart, just like you would on any e-commerce site, like Amazon.

Act III: Connected Trading

The last step of the trading process should be simple. All you have to do is get your trades to your custodian.

But with traditional rebalancing technology, it's not that simple. You've got to manually download a file, manually upload it, check its formatting, and hope that the trades come out correctly on the other side. It's a hassle, and it's prone to error!

Connect Trading, powered by Flyer, isn't prone to human error in the way that rebalancing tools are. Once you've got your trades in your cart, you click a button to fulfill your orders, and we'll take care of the rest through a FIX connection with every major custodian.

One of the best features of Connected Trading is that we automatically block and allocate trades to help you fulfill your fiduciary duty and get the best price for all your clients.

While your trades are processing, you can monitor their progress until you get to celebrate with the animation that lets you know they've been processed.

STAY ON TRACK WITH ONE-CLICK FIDUCIARY™ TECHNOLOGY

Get ready to make the right portfolio decisions that will keep clients on track toward their investing goals.

Contact our team today to schedule a demo of the next-level trading platform that can be used anywhere, from your office to the golf course.

[REQUEST AN AUTOPILOT DEMO](#)

Riskalyze is the company that invented the Risk Number®, which powers the world's first Risk Alignment Platform and was built on top of a Nobel Prize-winning academic framework. Advisors, broker-dealers, RIAs and asset managers use the Riskalyze platform to create alignment between clients and portfolios, leverage sophisticated analytics to increase the quality of their advice, automate trading and client account management, and access world-class models and research in the Riskalyze Partner Store — all with the mission of empowering the world to invest fearlessly. To learn more, visit riskalyze.com.