

The Highest and Best Use of Wealth Management Resources

A Strategy for Differentiating Your Practice



The terrain of today's wealth management landscape continues to shift as advisors grapple with a range of issues, including:

- Greater investment complexity
- Possessing breadth and depth of expertise
- Continually delivering a world-class client experience

Success in the current environment requires a robust effort across multiple disciplines simultaneously to maintain a client base and continue to build a practice. The advisory firms that have grown successfully understand that the demands of today's high-net-worth client require the right combination of timely communication, advisor expertise and continual access to sophisticated investments.

Leverage for efficiency

The most competitive firms have refined their approach by leveraging their practice to address any service gaps and differentiate their offering to clients. This leverage can take many forms but remains focused on optimizing both internal and external resources to deliver a world-class level of service, while being mindful of the cost structure of the practice.

Examples of this type of leverage include:

- Realigning personnel to more profitably service clients
- Hiring more staff to allow senior advisors to focus on the most complex relationships
- Deciding to outsource investment research, operations or IT, either partially or fully

Interest in Outsourcing Is Growing

According to a survey by FlexShares, [The Race To Scalability 2020](#), advisors' interest in outsourcing investment management is increasing. Advisors find these aspects of outsourcing appealing:

- A broader range of solutions
- Affordability
- User-friendly technology

Highest and best use of firm resources

When Segal Marco Advisors' wealth management practice consults with financial advisory firms, including registered investment advisor, banks, multi-family offices and broker dealers to provide investment guidance, market insights and share industry best practices, a primary topic is the highest and best use of firm resources. In our more than 20 years of experience advising wealth management firms, we've found this is critical for firms trying to grow, especially since many advisors have achieved their current level of success by being generalists by necessity and performing a variety of tasks across their practice. Most advisors today have multiple, and sometimes competing, responsibilities: providing ongoing guidance to clients, expanding relationships, cultivating each client's next generation and earning referrals. In addition, the advisors need to remain updated on the capital markets, investments held by clients and other investment opportunities worth considering for clients.

The ultimate goal in reviewing the roles, responsibilities and resources of the firm is to optimize each aspect to allow for further achievement of the core goal: providing clients with excellent service while creating capacity to manage firm growth.

In our experience, the better-aligned firms have created a structure that allows advisors to focus more of their time on their highest and best use, which is managing client relationships and deepening ties with clients. These actions lead to a happier and more stable client base, which inevitably results in expanded relationships, greater referrals and a much higher client retention rate. This virtuous cycle creates a larger and more successful wealth management practice.

For this type of alignment to be successfully implemented, the highest and best use concept must be applied further across the practice. If the advisors are focused on client management and relationship building, by default all other responsibilities still need to be addressed.

Investment research is a good example. In some practices, a portion of an advisor's time is dedicated to investment research and creating research collateral for the firm and client use. However, many successful practices have taken the approach of making a dedicated staff with investment research experience responsible for this critical function. This structure provides better alignment with roles and responsibilities because it addresses the fundamental fallacy of being a financial advisor, which is that it is possible for an advisor to possess all of the knowledge and expertise required to serve a diverse client base. In this example, investment research is addressed, but the notion applies across all of the disciplines covered in a wealth management practice: financial planning, investments, estate planning, insurance and taxation.

Advising the advisor

The relationships we have with firms across the wealth management industry provides us with an informed perspective on the client trends and investment solutions that are being used to retain and win business. Through our investment research and guidance, we refer to our role as “advising the advisor,” which allows us to work closely with those we serve to create bespoke solutions tailored to their practice and clients. For our clients, our relationship is a point of leverage for their practice because the firm receives an immediate, customized research solution that is economically attractive.

Due to the unique structure of each practice, the needs and solutions will vary for each relationship, however, each typically contain a combination of the services detailed in the chart.

Role/Function	Segal Marco Responsibilities
Extension of investment staff	<ul style="list-style-type: none"> • Support for informed decision-making • Combine “best thinking” of advisor and Segal Marco • Accessible, responsive to advisor/client needs • Customized recommendations • Provide necessary education • Support advisor’s client engagement, governance
Model strategic asset allocation	<ul style="list-style-type: none"> • Provide annual assumptions and investment outlook • Support and maintain asset allocation models customize for client mix • Aid client classification by risk tolerance/return • Support advisor assetallocation selection and client recommendations • Facilitate modification, customization
Investment structure best practices	<ul style="list-style-type: none"> • Bridge asset allocation and manager selection • Support Implementation road map • Promote consistency, rationalization of decision-making • Support manager selection decisions • Facilitate benchmarking and performance evaluation
Manager platform	<ul style="list-style-type: none"> • Support and maintain manager platform • Incorporate investment structure • Identify manager gaps, rationalize overlap and manager concentration • Manager search and replacement • Perform and report manager due diligence performance • Performance monitoring, attribution and evaluation
Outsourced CIO	<ul style="list-style-type: none"> • Supporting governance, ongoing client engagement (as requested) • Customized capital market expectations • Monte Carlo/asset liability modeling • Complex portfolio transition • Direct alternatives programs • Ad hoc projects • Support new business

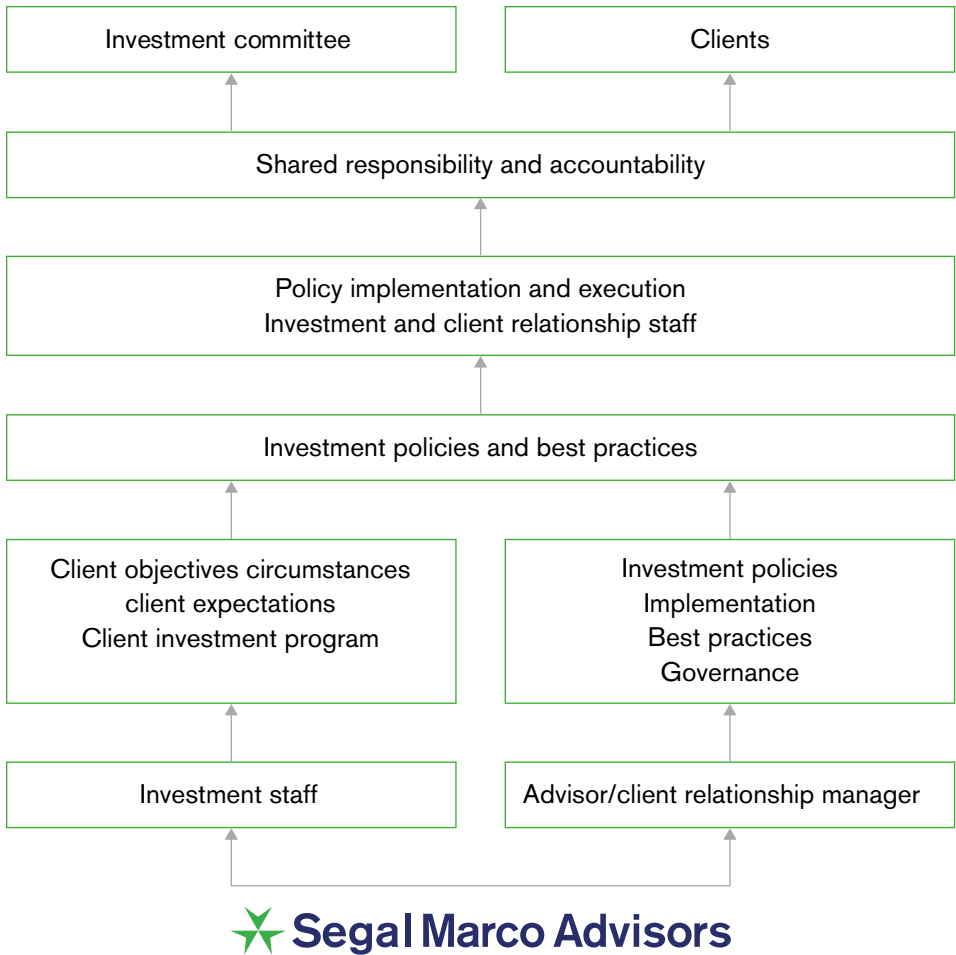
We'll be an extension of your staff

Our Advisor Solutions Group can bring an extensive set of resources to bear with each relationship, providing significant capabilities to address the demands of each practice. Our team acts as an extension of the internal staff and collaborates with **you**, the client, to share our knowledge and experience while maintaining the rigor and process necessary for you to execute your client's goals.

A key aspect of providing timely guidance is our experience counseling similar clients through the challenging issues facing every wealth manager. There is considerable variety in the subjects addressed, which can include how to set up an internal manager monitoring program for the investment committee, manager "watch list" metrics and tolerances as well as establishing best practices for policy reviews and governance. However, the key aspect of these efforts is for our team and yours to coordinate through frequent dialogue to establish, implement and monitor the processes put in place to operate the practice more effectively.

The chart on the next page depicts a representative example of this collaboration.





In this example, the wealth management practice and our team share responsibility for developing effective investment policies and best practices. Our Advisor Solutions Group provides education, tools, standards and benchmarks that support informed top-down and bottom-up decision-making. The improvements recommended are inherently scalable and readily implementable.

Our team seeks to complement the existing investment staff of the practice, which is critical to ensure the success of this type of partnership. Our goal is to supplement your staff's capabilities, decision-making and communication. Ideally, your wealth management practice fully leverages our capabilities, which allows you to shift more investment responsibilities to our team. This allows your staff to focus on client-centric, value-added functions.



A global perspective with bespoke solutions

We harness the collective insights of our research team and the experience of our Advisor Solutions Group to create a customized suite of solutions that will serve your practice and clients well. We know how critical it is to understand your needs, challenges and existing solutions before we share our opinion of where there may be opportunities to make enhancements.

As depicted in the chart below, a firm's current structure and specific needs are always the starting point before we start building the right combination of solutions, including asset allocation insights, investment structure and the overall manager platform. Finally, risk management, performance evaluation and ongoing monitoring protocols need be agreed upon and implemented with vigilance to ensure the integrity of the overall process.





Investment platform

A central focus of each wealth management practice is the investment platform used to construct each client portfolio. Similarly, a central tenet of our approach is to provide curated and thoughtful investment options appropriate for each practice that meets their client's needs.

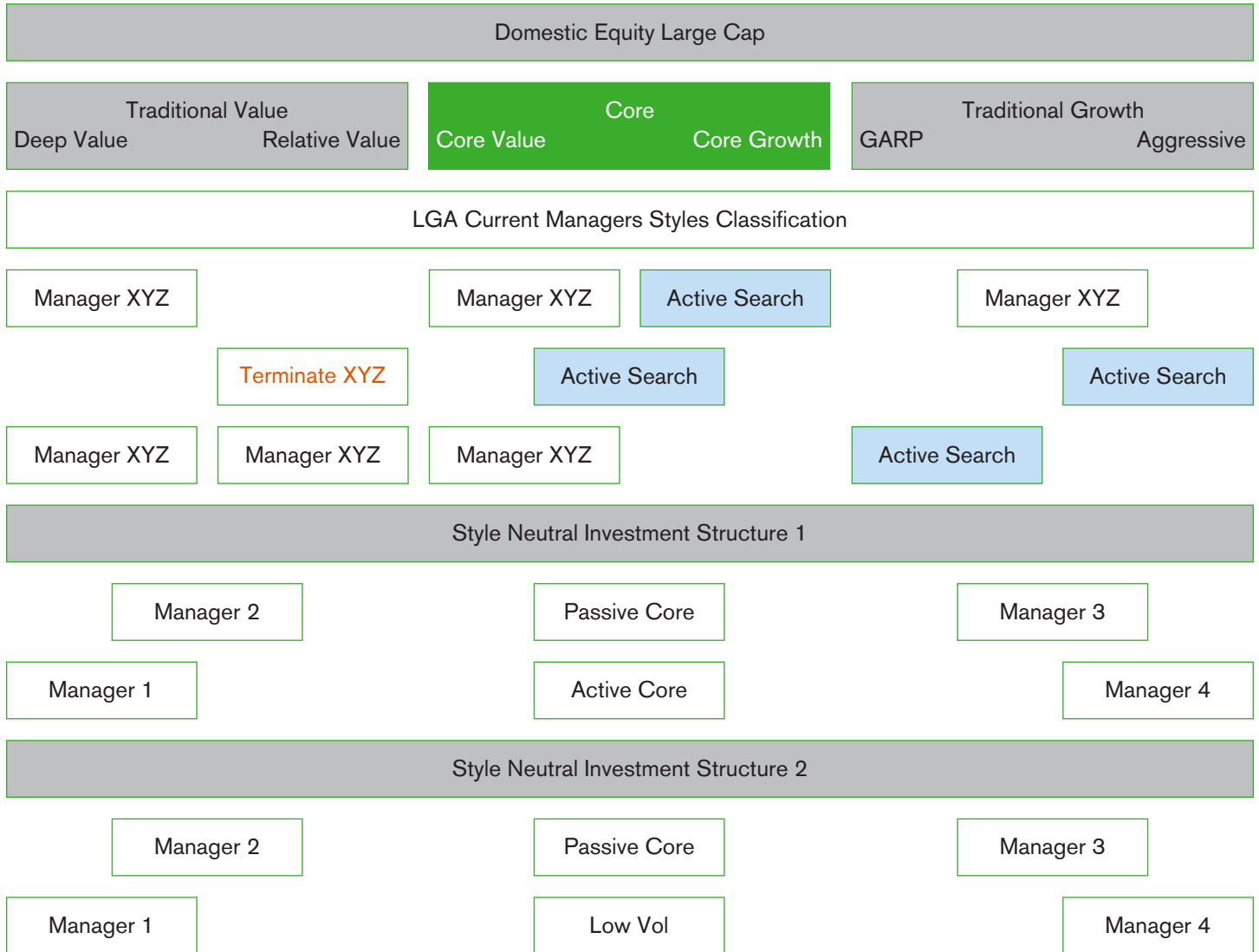
The initial phase of our efforts is to construct the platform after gaining a thorough understanding of your objectives and sensitivities. We also consider the inherent implementation trade-offs when creating a diverse investment platform, namely:

- The overall number of investment strategies
- Type and mix of investment vehicles
- Account minimum thresholds
- Active versus passive

Every successful wealth management firm has client assets invested across various investment strategies that are preferred by the practice. An important step in constructing the investment platform is to provide our independent opinion of those strategies. The next step is to review your existing platform, identify and fill structural gaps with manager searches and supplement the existing manager lineup with recommended managers.

Once the platform is reviewed and gaps filled with new options, our responsibility expands to maintaining the investment platform through ongoing monitoring and performance evaluation. We begin periodic monitoring of all managers for material organizational and personnel changes, style drifts, performance issues and impact on client portfolios. As our investment thesis adjusts depending on asset manager, we adhere to our process to suggest replacement investment options and continue our ongoing review and monitoring protocols.

As part of the structural review of the platform, we may discover more substantial changes are needed to the manager options. A common situation is that a firm's client base evolves into larger and more sophisticated relationships that require a more robust set of alternative investment options. However, the flexibility of our advisory team allows for new strategies to be added to the platform while educating the advisors to ensure they are prepared to speak to their clients about the new options.



Model strategic asset allocation

Our goal with our asset allocation work is to address the broadest set of advisor requirements and client objectives. Our typical model portfolio structure is multi-tiered and optimized to allow the advisor many choices when combining a set of desired asset classes within a risk spectrum for each client.

Asset allocation modeling is a fundamental need for all wealth management firms, but the creation and implementation of these services can vary widely, based on the firm's structure, goals and starting point. Although each client situation can vary, the four most frequent scenarios are:

1

New model creation

There are many firms that do not have a formalized set of asset allocation models and recognize it as a need for their practice. We work with them to identify their preferences and any constraints and then construct the asset allocation options based on our proprietary capital market assumptions.

2

Current model review

Firms with an existing set of models will periodically want them reviewed by a third party to ensure the collective best thinking is part of their client offering. We try to identify any asset class gaps, review the overall asset class allocations and the number and progression of the model set.

3

Discretionary oversight

This option involves the wealth firm delegating investment authority over their models to their research partner. This structure allows changes to be made in the asset allocation models and underlying implementation vehicles.

4

Multi-family office services

Clients of multi-family offices have substantial assets and their asset allocation needs reach beyond an asset allocation model. In our work with these types of firms, we create a fully customized asset allocation plan for individual clients that accounts for all of the asset classes held by the client, their investment goals and any other unique requirements.



Divide and conquer

The wealth management business becomes more competitive each year as client expectations rise, advisory fees fall and the industry continues to consolidate. As the requirements to sustain a successful practice escalate, advisors must be able to offer holistic financial planning services and differentiate their practice with domain expertise that will attract and retain clients. While this can seem daunting, many firms are excelling and continuing to add new, larger relationships.

The strategy of leveraging internal or external resources to make a wealth practice more efficient or acquire expertise has become more widely embraced, with more firms participating each year. Every practice needs to evaluate if their future needs can be met by staff additions, partnering with an external provider or a combination of the two approaches.

In summary, the task of each firm is to identify what differentiates their business from a multitude of competition and work relentlessly to maintain that advantage. Narrowly defining staff roles to ensure specialization allows each person to make the maximum positive impact to the practice, based on their area of expertise. However, this approach will only flourish if the firm is committed to specialized expertise in all areas, regardless of whether the source is internal or external.

The Advisor Solutions Group is one of the first consulting practices dedicated to working exclusively with the financial advisory community. It was created in 2002 as part of Rogerscasey, which Segal Marco Advisors acquired in 2012.

Questions? Contact the author.



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Peter Sullivan, Vice President and Senior Consultant, created the content for the charts.

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