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Investors Grow Skeptical of Individual Advisor Investment Expertise

By Danielle Verbrigghe May 15, 2018

Wealthy investors are becoming more skeptical of financial advisor investment expertise, and are more likely to value the skills of a dedicated team of investment professionals, according to new Cerulli Associates research.

In 2013, 47% of investors surveyed believed that their personal advisor could provide them with the highest level of investment expertise, as opposed to 27% who said they preferred a dedicated team of investment professionals or a third-party manager. But by 2017, just 33% of investors said they believed their advisor to have more investment expertise, compared to a dedicated group at the same firm, or a third party, according to the report, based on a survey conducted by Phoenix Marketing International.

The survey results indicate more investors understanding that a team or dedicated group may produce better outcomes than an individual advisor trying to do their best, says Cerulli director Scott Smith. The results could also indicate an opportunity for home office models and third-party strategists, he says.

“Home offices have more opportunity to help their advisors position themselves…. as a conduit for the home office expertise, rather than as lone wolf asset allocators and stock pickers,” Smith says.

This comes even as advisor-discretionary rep-as-portfolio manager (rep-as-PM) programs have been one of the fastest growing types of advisory programs in recent years, outpacing the growth of home-office discretionary, and third-party separately managed account (SMA) programs at many firms. Industry assets in rep-as-PM programs grew 29.8% in 2017 to reach $1.49 trillion at the end of the year, according to Cerulli data.

“Since the emergence of the profession, financial advisors have long staked their value on their proficiency in creating and managing client portfolios,” wrote Cerulli in the report. “In recent years, this proclivity caused substantial agita among many [broker-dealer] home-office compliance teams as they witnessed managed account assets pouring into [rep-as-PM] programs.”

Brokerage home offices have identified advisors whose portfolios consistently underperform home office models, Cerulli noted in the report. This has also drawn increasing interest from regulators looking to see what home offices are doing to address this issue.

In some cases, a "firm is stuck between advisors who insist on maintaining portfolio control as an indicator of their expertise to their clients, and regulators who suspect that the growth of RPM may be more about advisors' vanity than investors' best interests," Cerulli wrote in the report.

Most of the growth in rep-as-PM programs has been occurring at the four big wirehouses, says Rick Ledbury, director at Fuse Research Network.

Many of the advisors operating rep-as-PM practices are part of broader teams with specialized roles, he explains.

"It's less an individual advisor and more team based," Ledbury says. "Within those teams you're starting to have more specialization, especially on the bigger high-net-worth teams and the private banking teams, they might have a handful of CFAs [who] are working on the investment side."

While home offices may want their advisors to focus more on delivering holistic advice, and less on managing individual portfolios, most have steered clear of forcing their existing advisors to give up rep-as-PM, says **Jody Cullinan**, director of product management and strategy in **Fiserv**'s Investment Services division.

"What we are seeing from the home office is a lot more monitoring and surveillance that's going on," Cullinan says. "Traditionally we would set up alerts for the advisors around things like security concentration. [Now] what we're seeing is home offices asking us to enact enterprise-wide warnings around not just position concentration, but also sector concentration and allocation drift that might go beyond the risk tolerance the client is set up for."

Firms are also monitoring performance of their advisors, but so far firms have largely stayed away from banning poorly performing advisors from rep-as-PM.

"The performance conversation sometimes doesn't go very well with an advisor who does see themselves as a portfolio manager," Cullinan says. Instead of forcing out poor performers, "they're putting tools in place so they can see themselves against their peers and maybe make those decisions on their own to transition out of being the portfolio manager and focus on holistic advice."

For some financial advisors, such as those who are operating in teams that include CFAs and due diligence-focused professionals, portfolio management remains a key value proposition, and will likely remain so, says Brooks Friederich, director of fund strategist portfolios at Envestnet. But other advisors are opting to reduce their workload by outsourcing investment management to a professional strategist, and focusing more on financial planning and holistic wealth management, he explains.

The average advisor spends about 40% of their time on asset allocation, portfolio management, trading, rebalancing and due diligence, Friederich says. “If they decide to outsource, they’re spending more time with their clients… and focusing less on the investments piece and more on financial planning.”

Envestnet data shows that the average fees advisors collect in rep-as-PM programs tends to be fairly comparable to the fees they collect when using fund strategists portfolios. In fact, the average advisor fee was slightly higher in fund strategist portfolios, where advisors earned an average of 99 basis points, on a total client fee of 123 basis points. By comparison, in rep-as-PM, advisors earned an average 90 basis points on a 101 basis point client fee.

“The fee to the advisor, whether they are the investment manager themselves or they’re choosing to outsource through a third party or home office is pretty close,” Friederich says. “You’re talking single digit basis points between the two.”