WHAT ADVISORS SHOULD DO WHEN THEIR AUM FEES PLUMMET—THE MISSING ENABLER: MODEL PORTFOLIOS

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05/04/2020

This article is relevant to financial professionals interested in asset allocation model portfolios. WisdomTree ETF model portfolios are available only to financial professionals, through various portfolio platforms.

I recently read an article by Sara Grillo, CFA, outlining what advisors should do when their assets under management (AUM) fees fall.[1] Ms. Grillo provided her top five ideas in the order of her most to least favorite:

1. Get incremental revenue from clients
2. Find new clients
3. Start charging hourly or flat fees for a consultation
4. Conduct paid webinars
5. Move to flat/retainer fees

These all lead to a big question. *How?*

Not "*how*" in the sense of how to find new clients or *how* to go about conducting paid webinars. I'll leave that to professionals like Ms. Grillo.

Rather, *how* will advisors find the time to even begin putting these ideas into motion?

That's where third-party model portfolios—*the missing enablers*—come into play.

Managing client portfolios is a time-consuming activity that requires research, due diligence and allocation decisions. For example, Cerulli Associates analyzed how thousands of advisors were allocating their time and found that "insourcers" spend nearly 20% of their entire workday on investment management, whereas "outsourcers"[2] were only spending 10%.

There are two important takeaways from this time allocation statistic.

First, advisors save time outsourcing to models.

How much time, you might ask?

BlackRock has noted that advisors using model portfolios today could save about 450 hours per year on investment administration.[3] KKM Financial eloquently states that advisors can "reclaim one day a week implementing a models-based practice."[4]

Times savings can add up and make a difference in your practice. Outsourcers were able to reallocate their time saved into effort spent on client meetings, prospecting new clients, financial planning, addressing client concerns and compliance.[5] If you are concerned about fee compression, outsourcing to third-party models can provide the time required to act.

And outsourcing doesn't mean *neglecting* investment responsibilities or *giving up control* of client portfolios. Outsourcers still spend a meaningful amount of time managing portfolios as the fiduciary, and they still retain complete control of client portfolios.

It's important to emphasize this because advisors can utilize third-party model providers and offer clients customized, tailored portfolios. It's a myth to say otherwise!

Avoiding the use of third-party models because you tailor client portfolios is like avoiding taking clients to restaurants because they have various taste preferences. Most model market centers, like restaurants, have a plethora of options on the menu and can be altered to fit exact needs and preferences.

While COVID-19 put a temporary halt on visiting restaurants, the point remains the same. Outsourcing investment management doesn't prevent individual customization. It enables it in a more scalable manner.

How else can advisors combat fee compression?

Perhaps within investment management itself.

Utilizing ETF model portfolios can bring down the higher costs associated with legacy active management in the mutual fund structure. Furthermore, using WisdomTree's Modern Alpha® ETFs allows advisors to typically lower the underlying fees of the portfolio without sacrificing the outperformance potential associated with active management.

Case in point: BlackRock did a study where they analyzed nearly 10,000 model portfolios provided by advisors and found that the average portfolio expense ratio is 0.54%, with the 5th and 95th percentiles being 0.14% and 0.96%, respectively.[6] **Many WisdomTree model portfolio strategies have model expense ratios less than half that 0.54% average!**[7] Transitioning accounts to ETF model portfolios is another way to potentially lower an advisor's cost structure.

Is fee compression going away? Probably not. Fortunately, ETF model portfolios can aid in reducing costs as well as unlocking more free time. That free time can enable advisors to combat fee compression by increasing the revenue per client as well as the number of clients served.

Advisors can get started by researching model market centers and visiting our model portfolio center. We also have a dedicated sales team that can assist you in generating client proposals for model portfolios as well as review our award-winning[8] Advisor Solutions platform.

There's a lot an advisor can do to combat fee compression. The issue is time. Outsourcing to third-party models not only enables significant time savings for advisors, it can also mutually benefit their clients who consume them.

[1]Sara Grillo, "What To Do When Your AUM Fees Plummet," Advisor Perspectives, Inc., 4/7/20.

[2]Definitions as provided by Cerulli Associates: "Outsourcers" cede discretion to home office or a third party, and "insourcers" rely primarily on practice resources.

[3]© 2020 BlackRock, Inc. All rights reserved. Quoting: Cerulli Associates, "U.S. Advisor Metrics 2018: Combatting Fee and Margin Pressure." Time savings estimation assumes 20% time savings x a 45-hour work week x 50 weeks per year = 450 hours saved.

[4]KKM Financial, "Reclaim One Day a Week Implementing a Models-Based Practice," 4/29/19. Quoting: Cerulli Associates, "U.S. Advisor Metrics 2018: Combatting Fee and Margin Pressure." https://kkmmodels.com/2019/04/29/reclaim-one-day-a-week-implementing-a-models-based-practice/

[5]The Cerulli Report | U.S. Asset Allocation Model Portfolios 2018.

[6]Larry Swedroe, "Advisors are Using Inefficient Model Portfolios," Advisor Perspectives,

Inc., 4/20/20. Quoting: [Factors and Advisor Portfolios](), which was published in the Spring 2020 issue of *The Journal of Wealth Management*.

[7]Source: WisdomTree, as of 3/31/20. Model portfolio expense ratios refer to the weighted average expense ratios of the constituents. Allocations are subject to change.

[8]Mutual Fund Industry Awards, 2018

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