IS STOCK PICKING DEAD?

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Stock picking isn't dead—but for most independent advisors, it should be.

Here's why: the odds of achieving success are low, it's suboptimal, and performance isn't everything.

Let's dig in.

The Odds of Achieving Success Are Low

In other words, it's rare to consistently outperform a passive benchmark over time. Most active managers come up short in this endeavor—a theme we've regularly seen in the semiannual SPIVA U.S. Scorecards[1].

How realistic is it to think that an advisor, who typically spends 20% of their capacity on investment management, would render different results[2]

Not realistic at all.

Jason Zweig touched upon this on Michael Kitces's Financial Advisor Success podcast:

> *"Advisors who think of themselves as portfolio managers above all, they have, I think, a really bad and naïve tendency to think that they are incredibly good professional portfolio managers. And 80% of Wall Street's best and brightest are outperformed by the S&P 500 year in and year out, and they have massive quantitative and qualitative resources that small, independent RIAs don't have and, frankly, never will have. You're competing on a playing field that is completely skewed…."*[3]

Let's steelman Mr. Zweig's argument and assume there is a population of advisors that are talented (lucky) enough to consistently beat a benchmark by picking stocks. If this is the case, why would that individual choose to become a financial advisor?

It's Suboptimal

The advisor is better off choosing a different career within finance, assuming they are optimizing for potential profits or audience reach.

When it comes to profits, the two-and-twenty fee arrangement common among hedge funds seems a whole lot more appealing than the 1% on assets under management (AUM) many fee-only advisors charge.

Regarding audience reach, an investing newsletter has the capability of reaching a substantially larger number of investors than the limited number of households a financial advisor can serve.

If someone is that good at picking stocks, *why would they work at an independent RIA with a few hundred million in AUM? They would be much better off running a hedge fund or SMA model portfolio or publishing an investment newsletter with a seemingly infinite return on investment (ROI).*[4]

To be clear, most financial advisors provide extraordinary value beyond portfolio management. So much value that…

Performance Isn't Everything

At least not in the eyes of investors who hire financial advisors.

For example, a new study asked people to rate their certainty levels on a scale of 1–100 across a broad range of factors. The study found that people who work with an advisor feel like they are on more solid ground across the board.[5]

NORMALIZED INDEX SCORE (1 – 100)	Do not work with an advisor	Work with an advisor	Difference of working with an advisor
The stability of your current housing situation	62.7	80.8	+18.1
Your ability to manage your level of debt	60.6	80.3	+19.7
Your understanding of personal finances	61.7	78	+16.3
Your ability to afford healthcare	57.8	77.7	+19.9
The stability of your employment situation / career	57.2	76.2	+19
Your ability to achieve long-term financial security	55.1	76.7	+21.6
Your ability to plan for retirement	54.6	77.5	+22.9
Your ability to pay for an unplanned financial emergency	52.9	77.6	+24.7
Your ability to pay for an unplanned health emergency	52.4	77.7	+25.3
NORMALIZED INDEX SCORE AVERAGE	57.2	78	+20.8

Source: https://news.northwesternmutual.com/planning-and-progress-study-2022

It's not that performance doesn't matter. But, as evident in the chart above, performance shouldn't be a singular focus. Advisors provide a copious amount of tangible value to their clients' financial well-being that extends beyond the performance versus a benchmark.

To summarize—it's not rational for independent financial advisors to hang their hat on picking stocks. The odds of achieving success are low, it's suboptimal from a career standpoint, and performance isn't everything in the eyes of most clients.

Instead, these advisors should shift their focus from picking stocks to providing other value-adds—i.e., financial planning, cash flow management and retirement planning.

But is this realistic for every advisor to undertake?

Not in my experience.

Many advisors originally entered the business because of their passion for investing. These advisors are understandably reluctant to give up complete control of the aspect of their day that excites them the most…

…even if they understand the benefits of outsourcing investment management and third-party model portfolios.

Thankfully, there is now a realistic compromise that investment-focused financial advisors can utilize in their practice through WisdomTree's Portfolio and Growth Solutions program . This program enables collaboration between our investment professionals and advisors with the goal of building custom model portfolios for their clients.

Unlike traditional TAMPs or OCIO services, this collaboration allows financial advisors to have input into the construction of these custom models that WisdomTree's Model Portfolio Investment Committee builds for their clients. This allows advisors to benefit from the massive quantitative and qualitative resources that a global asset manager possesses and cultivate a unique offering tailored specifically for their clients—two amazing benefits often perceived as mutually exclusive.

Furthermore, through WisdomTree's partnership with Adhesion, we can trade and rebalance these portfolios on your behalf with the ability to create automated withdrawals, account billing, tax loss harvesting and other features.

We believe this program can potentially save advisors time and money and help them achieve better outcomes for their clients—something I don't have a lot of confidence in when it comes to picking stocks.

Interested in learning more about our Portfolio and Growth Solutions? Financial advisors should fill out the contact form below.

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DEFINITIONS

Stock pick : When an analyst or investor uses a systematic form of analysis to conclude that a particular stock will make a good investment and, therefore, should be added to their portfolio.

Tax Loss Harvesting : Selling securities at a loss to offset a capital gains tax liability. Tax gain/loss harvesting is typically used to limit the recognition of short-term capital gains, which are normally taxed at higher federal income tax rates than long-term capital gains.