DEBUNKING THE MYTHS OF A MODEL PORTFOLIO APPROACH

Ryan Krystopowicz — Director of Client Solutions
07/10/2019

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

I recently published a blog post on some of the benefits that financial advisors receive from adopting a models-based practice in their firms. The premise was simple: outsourcing portfolio construction may provide advisors with more time to spend on client service and acquisition.

Seems convincing enough, right?

Not too fast.

Over 85% of the current advisory population is not using external model portfolio providers. Why aren't more advisors adopting ETF model portfolios in their practice?

Perhaps it's because of some of the myths surrounding them.

Myth 1: Loss of Value Proposition in the Eyes of Clients

A common concern among financial professionals is that they are losing their value proposition to their clients by outsourcing the asset allocation to a third party.

The question financial advisors may want to ask themselves is this: "What do my clients perceive my value proposition to be?" If it's picking the best stocks or complete independence in constructing asset allocation, I concede this myth may in fact be a reality.

Perhaps it's not, though, and perhaps their value is creating the best financial plan and helping individuals stick to it. Or perhaps it's being a market therapist and providing best-in-class service.

Outsourcing asset allocation for many advisors isn't sacrificing the value proposition they offer clients. It's the opposite. It's maximizing the energy spent on an advisor's core competencies to unlock the most value. Examples include building intergenerational relationships, handling retirement planning and engaging clients with behavioral finance. We encourage all financial professionals to visit our Advisor Solutions web page to learn more.

Myth 2: Each Client Is Unique; Therefore, Each Portfolio Must Be

I struggle with this myth for two reasons.

First, numbers don't lie. With over a thousand model portfolios available for advisors to follow and exponential combinations when accounting for modifications, there's no reason why each client can't have a "unique portfolio" with a model portfolio-based practice.

Second, do unique individuals require a unique model portfolio, or do they require a unique financial plan? I'd argue it's the latter. And asset allocation or model portfolios can be a starting point for constructing a financial plan for individuals. In other words: differentiated model portfolios don't make individuals unique; the trials and tribulations of their finance journey do.

Myth 3: Adopting Model Portfolios Means 100% Outsourcing

Complete myth! Is anything so black and white?

One of the largest groups of advisors expected to adopt model portfolios are called "modifiers." Modifiers are known to start with a model portfolio—such as from a third party—and make slight alterations to that foundation for each individual client. Modifiers might not harvest all the potential benefits of 100% outsourcing; however, this method can provide a comfortable middle ground for advisors who want to outsource but also want input into the investment decisions.

On a similar note, model portfolio allocation sleeves are also a popular investment among advisors who don't 100% outsource. These allocation sleeves typically are an abbreviated version of a model portfolio in that they generally provide exposure to one asset class or geography. Popular examples of such sleeves include fixed income, emerging markets and liquid alternative allocations, where capitalizing on the knowledge of a third-party asset manager or strategists could be more prudent.

Myth 4: Third-Party Due Diligence Is Extremely Difficult

Due diligence is key whether an advisor is considering individual stocks, ETFs, active manger mutual funds or a third-party model portfolio. While not all model portfolios are created equal, it's wrong to categorize all model portfolios and the decisions in their underlying ingredients as a "black box."

Transparency is vital. Many third-party model portfolios participate in webinars and provide due diligence presentation decks so that advisors can effectively evaluate the investment personnel and the models that they manage. Furthermore, a distinct advantage of utilizing ETF-only model portfolios is the daily transparency the ETF investment vehicle provides.

WisdomTree's founder and other pivotal team leaders have remained with the firm since its formative stages and continue to lead our model portfolio's Asset Allocation Team. These same individuals developed the intellectual property upon which many ETFs in the model portfolios are built. As a result, we believe that WisdomTree intimately understands the inner workings and behavior of the strategies through various economic environments—a key component of helping financial professionals conduct due diligence.

Myth 5: Client Conversations Would Become More Difficult

Outsourcing portfolio construction doesn't mean sacrificing knowledge of the inner workings within the portfolio and the ability to communicate that to other stakeholders. Just as an advisor might consult with an outside portfolio manager on a particular strategy he or she is invested in, the support for investors/clients ought to be no different.

At WisdomTree, we support our model portfolio subscribers in a variety of ways. Our robust website stores various forms of on-demand content to keep financial professionals informed on how the model portfolios are constructed, asset allocation views and model portfolio performance over various time frames. Need a more personalized approach? No problem. We have a dedicated distribution team and model portfolio specialists to help support the various needs of financial professionals.

While the level and bandwidth of support may vary with each third-party asset manager, understanding the resources different firms offer and establishing a relationship that best serves your needs is important to consider for financial professionals who are ready to include model portfolios in their practice.

Conclusion

We foresee many more financial advisors adopting models into their practice in some form or fashion over the coming years. It's a big decision, which is why we believe it's important to separate the myths from the realities when weighing options.

Financial professionals can learn more about WisdomTree Modern Alpha™ ETF model portfolios here.

Unless otherwise stated, all data is from The Cerulli Report—U.S. Asset Allocation Model Portfolios 2018.

Important Risks Related to this Article

This content is for information only and is not intended to provide, and should not be relied on for, tax, legal, accounting, investment or financial planning advice by WisdomTree, nor should it be considered or relied upon as a recommendation by WisdomTree regarding the use or suitability of any model portfolio or any particular security. This content is intended for use only by a financial advisor as a resource in the development of a portfolio for a financial advisor's clients. The financial advisor is solely responsible for making investment recommendations and/or decisions with respect to its clients without input from WisdomTree, including with respect to investing in accordance with any model portfolio or any particular security. WisdomTree is not acting in an investment advisory, fiduciary or quasi-fiduciary capacity to any financial advisor or its client and is not providing individualized investment advice to any financial advisor or its client based on or tailored to the circumstances of any individual financial advisor or its individual client.

This material has been prepared without regard to the individual financial circumstances and objectives of any investor, and the appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. Investors and their advisors should consider the investors' individual financial circumstances, investment time frame, risk tolerance level and investment goals. Investors should consult with their own advisors before engaging in any transaction. Using an asset allocation strategy does not ensure a profit or protect against loss, and diversification does not eliminate the risk of experiencing investment losses. There is no assurance that investing in accordance with a model portfolio's allocations will provide positive performance over any period. The model portfolios are provided "as is," without any warranty of any kind, express or implied. Information and other marketing materials provided to you by WisdomTree or any third party concerning a WisdomTree model portfolio, including allocations, performance and other characteristics, may not be indicative of an investor's actual experience from an account managed in accordance with a model portfolio's strategy.

For standardized performance and the most recent month-end performance click here NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

For more investing insights, check out our Economic & Market Outlook

View the online version of this article here.

IMPORTANT INFORMATION

U.S. investors only: Click here to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an “as is” basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the “MSCI Parties”) expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only.

You cannot invest directly in an index.