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

Ryan Krystowicz — Associate Director, Product Solutions Strategist-Model Portfolios
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-winning⁸ 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.

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

²Definitions 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.

⁴KKM 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/>

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

⁶Larry 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*.

⁷Source: 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.

⁸Mutual Fund Industry Awards, 2018

Important Risks Related to this Article

There are risks involved with investing, including possible loss of principal. Using an asset allocation strategy does not ensure a profit or protect against loss.

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.

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 content 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 investor's 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.

This content, and any assistance provided as described herein, including portfolio construction and asset allocation stress testing, assessments, discussions, output or other assistance (whether by WisdomTree personnel or digital tools) (the "Assistance Tools") are for information only and no material or Assistance Tools are intended to provide, and should not be relied on for, tax, legal, accounting, investment or financial planning advice. This content and the Assistance Tools are intended for use only by a financial advisor as a resource in the development of a portfolio for the financial advisor's clients.

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, Kara Marciscano, 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.

DEFINITIONS

Active : Funds that attempt to outperform the market by selecting securities a portfolio manager believe to be the best.

Modern Alpha : Modern Alpha® combines the outperformance potential of active with the benefits of passive—to offer investor strategies that are built for performance.