

# FOUR HABITS OF HIGHLY SUCCESSFUL ADVISORS: PART FOUR

**Scott Welch — Chief Investment Officer, Model Portfolios, Ryan Krystopowicz — Director of Client Solutions**  
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My colleague Ryan Krystopowicz and I recently co-wrote and posted to the WisdomTree website a white paper “think piece” entitled, [“Four Habits of Highly Successful Advisors.”](#)<sup>1</sup> We are now “serializing” that white paper into four blogs.

In [part 1](#), we discussed how to appropriately evaluate and build enterprise value by focusing on scale, efficiency and profitability. In [part 2](#), we focused on the importance of client segmentation and “niche” branding. In [part 3](#), we focused on the importance of optimizing fees and taxes—the two things any advisor has the most control over.

Here in this final segment, we focus on how the use of outsourcing can drive scale, efficiency and profitability in your practice by allowing you to deliver institutional-quality investment solutions and boutique-quality client service.

## **Habit Four: Active Adoption and Employment of Third-Party Model Portfolios**

Many advisors believe one of their primary value propositions is the construction and management of client investment portfolios.

Nothing wrong with that. But many advisors are increasingly seeking to outsource some or all of that function to a qualified model manager—what the institutional world calls an “outsourced CIO.”

These advisors are choosing to focus their activities on their core competencies—niche branding and segmentation, financial and estate planning, family governance, business development and relationship management—and outsourcing at least some portion of the investment management function as a way of improving productivity, efficiency and (potentially) performance.

It comes down to partnering with outsourcing firms like WisdomTree to deliver institutional-quality investment solutions so the advisor can focus on delivering core competencies and boutique-quality value-added services.

Our own market research indicates that many advisors want to be involved in the portfolio management function for their clients, and view that capability as a primary value proposition. We don’t second-guess that perception, but we do point out that *end clients* are much more accepting of third-party models than many advisors believe.

Other industry surveys support this, and point out the potential benefits of outsourcing:

- Advisors using third-party model portfolios are realizing four times the asset growth and nine times the productivity growth of advisors who do not.<sup>2</sup> We are not seeking to replace a firm’s investment solution; we position ourselves as an extension of already in-house capabilities.
- Third-party model portfolios have grown in AUM to an excess of \$5 trillion, as more advisors realize the potential benefits of outsourcing.<sup>3</sup>

## **Focusing on the Left Side of the Decimal Point**

In a highly volatile, potentially low-return market regime, advisors need to think differently about what “adding value” means in constructing and managing investor portfolios.

We believe too many advisors spend too much time focusing on investment activities that potentially add value in basis points rather than “handles.” We refer to this phenomenon as “focusing on the right side of the decimal point.”

Advisors who are most successful in growing their practices spend far more time focusing on the “left side” of the decimal point—that is, on those activities that add the most value to investors’ financial lives. In terms of actual long-term value to a client portfolio, for example, we believe the “hierarchy of added value” might look something like this:

1. Estate planning
2. Asset allocation

3. Cost and tax management
4. Institutional-quality portfolio management

Summarizing our [“Four Habits of Highly Successful Advisors”](#) illustrates how advisors can incorporate this “hierarchy of added value, as well as address the specific trends and objectives of increasingly sophisticated investors:

1. To increase enterprise value, focus on scale, efficiency and profitability, not AUM or AUA
2. Segmentation and finding your niche
3. Optimizing taxes and active management fees
4. Active adoption and employment of third-party model portfolios

Of course, there are advisors who enjoy significant success without employing any of these ideas, or perhaps just a few of them. But, in our experience, advisors who do employ these best practices are enjoying faster growth, improved operational efficiency, enhanced client advocacy and increased profitability—and therefore increased enterprise value.

Not a bad outcome.

*For those interested in learning about the rest of the habits, please check out the [other three blogs](#) in the series and make sure to read the entire white paper: [“Four Habits of Highly Successful Advisors.”](#)*

**For financial professionals interested in learning more about WisdomTree’s Portfolio & Growth Solutions program, click [here](#).**

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.

View the online version of this article [here](#).

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