

Achieving Transparency & the Four Ps of Due Diligence, Part II

Published September 24, 2020

Scott Welch, CIMA ®

Chief Investment Officer, Model Portfolios

This article is relevant to financial professionals who are considering offering model portfolios to their clients. If you are an individual investor interested in WisdomTree ETF Model Portfolios, please inquire with your financial professional. Not all financial professionals have direct access to these model portfolios.

In Part 1 of this two-part blog series, we highlighted a recent Ignites post¹ summarizing the findings of a comprehensive Morningstar survey² on the explosive growth in [model portfolio adoption by financial advisors and wealth managers](#). It highlighted some opportunities that can come from the increased use of models and some obstacles and hesitations to even greater adoption.

We've written before about the many opportunities for [advisors that may come with model portfolios](#), so we will summarize them here:

- A greater ability for advisors to focus on core competencies
- More time for serving and finding clients
- A more consistent investment experience for the end client
- Greater scale and efficiency, all of which can help advisors “build their book” or increase their enterprise value

But what about the obstacles? The Ignites post summarizes them nicely, citing the Morningstar report: “There are no clear standards on how managers report track records and ongoing performance for their paper portfolios, according to a recent report from the Chicago-based fund tracker. This places the onus on advisors to step up their due diligence and rely less on track records and more on their understanding of the processes and people behind the models.”

To summarize, advisors need to focus on **due diligence**, and model providers need to focus on **transparency**.

In Part I of the series, we focused on due diligence. Now we turn our attention to transparency.

Transparency can mean different things to different advisors, but we believe common themes include the following:

- Quality, comprehensiveness and accuracy of information
- Timely delivery of information

- Easy access to information
- Responsiveness to questions about information

The bottom line is that if advisors plan to use model portfolios, they need to (1) understand how and why they are built and (2) be confident in discussing and explaining them to their end clients.

Here is a summary of how WisdomTree attempts to tackle the issue of transparency. Before we dive into specifics, a good starting point is a description of how we position ourselves and our Model Portfolios with the advisors who use them.

We emphasize that we are not trying to replace advisors in the investment management aspect of their practice. Rather, we encourage them to view us as an extension of and complement to what they are already doing.

In other words, view us as the addition of a global research team, whose sole purpose is to help advisors deliver institutional-quality portfolio management capabilities to their end clients. We find this creates a nice pathway for partnership and, therefore, transparency.

Now, onto the specifics.

Quality, Comprehensiveness and Accuracy of Information: All WisdomTree Model Portfolios are GIPS compliant. GIPS, or Global Investment Performance Standards, is essentially the industry gold standard for reporting performance.

To quote the GIPS website, “Compliance with the GIPS standards means adhering to all applicable requirements. ... The GIPS standards must be applied with the goal of full disclosure and fair representation of investment performance. Meeting that goal will likely require more than compliance with the minimum requirements of the GIPS standards.”

Taking this one step further, all WisdomTree Model Portfolios have a live track record—we funded them at inception with our own capital—and all performances post the live track record of actual invested dollars. They are not simply paper models.

Timeliness of Information: The most recent asset allocations and performances of all WisdomTree Model Portfolios are available monthly on our website, including line-item positions and allocations. Every quarter, we provide fact sheets, commentaries and a summary of any allocation changes we made to the portfolios.

Ease of Access to Information: We make information about our portfolios available in various formats—our website, hard copy, Excel spreadsheets and more. Existing investors have this information “pushed” to them so that they receive it as soon as it is available (usually within a few days of quarter-end).

Responsiveness to Questions about Information: The research professionals at WisdomTree know that part of our explicit job description is to be responsive to investors’ questions. We work closely with our relationship management professionals to schedule conference calls, provide additional written information and analysis and, in general, be on call for inbound questions from our advisor clients. We

know that they need thoughtful, accurate and timely responses from us so that they can, in turn, have those same discussions with their end clients.

Even before the Ignites article and Morningstar report, the WisdomTree DNA focused on transparency and responsiveness. It is key to the success of our clients and, therefore, of WisdomTree.

We know there remain obstacles to further adoption of model portfolio usage. But we believe that by listening to and working closely with advisors, we can build a solution that will overcome these obstacles.

1Source: Jackie Noblett, "Model Market's Explosive Growth Muddied by Data Gaps," Ignites, 8/13/20.

2Source: "2020 Model Portfolio Landscape," Morningstar.

Important Risks Related to this Article

There are risks involved with investing, including possible loss of principal.

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