

An Advisor's Guide to Rolling Out Model Portfolios in Their Practice

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For those fortunate enough to have a financial advisor—what a time to be alive.

Technology advancements have democratized institutional-caliber strategies once reserved for the super-wealthy.

These strategies are called third-party model portfolios, and their growth in recent years has been explosive. Broadridge estimates assets in all model portfolios have grown at least 18% annually over the past five years and are expected to exceed a total of \$10.3T in AUM over the next five years.¹

Despite this growth, advisors have voiced concerns over their ability to utilize third-party models in their practice. Examples of these concerns include “which of my clients are a good fit for third-party models” and “how do I communicate to them the use of an outside manager without hurting my credibility”?

Let's break down each of these concerns using insights gathered from the WisdomTree Third-Party Model Portfolios Research Study.

Which of my clients are a good fit for third-party models?

The two most common ways I see advisors implement third-party model portfolios into their practice is by segmenting their book of business by account size and tax status (or a combination of both).

In practice, this means starting with “smaller accounts” in AUM and then graduating to nearly “all accounts” once the advisor is comfortable with how things are going with the manager.

Additionally, advisors will often look at their tax-exempt accounts to transition into models since the buys and sales required to transition into the new model can generate capital gains for the client.

But here's a new idea: start with the clientele who embrace third-party model portfolios the most.

WisdomTree's Model Portfolio Research Study used psychographic segmentation to understand which investors would most likely embrace their advisor who uses third-party model portfolios. Two groups of investors worth focusing on are those we will call “Open Olivers” and “Backseat Barbaras.”

Open Oliver's represent not only an advisor's most loyal clients but also those most open to risk. They are likely in their early to mid-40s, tend to have a household income of more than \$200,000 per year and have more than \$665,000 in investable assets. They are early adopters, are viewed as a valued resource to others and often recommend products and services to friends and family.

Backseat Barbaras are in their late 50s to early 60s and may already be retired. They prefer to let advisors take the lead and put even more importance on the advantages they believe advisors provide—such as financial expertise and advice, keeping up with the markets and looking out for their best interests. They are more conservative than Open Oliver's, but with nearly \$775,000 in investable assets, they do have a little more to lose.

More background on these segments is illustrated below:



Open Oliver



Backseat Barbara

Embrace Model Portfolio Usage	80%	53%
Age	43.1	59.6
Average HHI	\$207,492	\$146,270
Average IA	\$665,653	\$771,546
Risk Tolerance*	3.6	1.8
Investing Experience	High	Low

*Risk tolerance: range is 1 to 5 with 5 being most open to risk.

You can see above that 80% of Open Oliver's embrace the usage of third-party model portfolios. To be clear, "embrace" holds a much higher standard than "acceptable." We found that 86% of investors believe it is "absolutely acceptable" to leverage third-party model portfolios.² This number is probably higher than most people assume. The caveat is that the advisor is promoting the use of third-party model portfolios properly—which brings us to the next question.

How do I communicate to them the use of an outside manager without hurting my credibility?

We tested a lot of messaging with the thousands of people in the study and developed the key talking points that resonated with investors generally and Open Oliver's and Backseat Barbaras more specifically.

We found analogies to be very helpful. Most investors equate an advisor understanding their financial needs and applying a model to a doctor conducting an assessment of their health—so this analogy can also be useful for advisors who are presenting third-party models to their clients.

We also saw the benefits of accentuating the positives.

Clients will take comfort in knowing that they will receive the benefit of the collective expertise of an asset management firm's analysts, strategists and PhDs. Advisors should emphasize:

- That you're leveraging the vast expertise and experience of a team that spends 100% of its time on asset allocation.
- That the third-party models you recommended provide a more sophisticated asset allocation approach.
- The trusted financial information and extensive expertise, research and technology that goes into each model. Consider talking about the number of people on the team or highlighting the number of analysts, strategists and PhDs and/or other advanced degrees of people on the asset allocation team.
- That you are combining your intimate knowledge of their needs with the valuable research and data from the model provider to create a tailored response to their unique situation and goals.
- That you will have more time for in-depth financial planning and to speak with them about their evolving goals.

We tested these messages with Open Olivers and Backseat Barbaras to uncover what resonated most.

**HOW TO POSITION
MODEL PORTFOLIOS TO
Open Olivers**



**“It’s an updated
investing approach
that lets me...”**

- + Leverage expertise of investment professionals who monitor markets full-time
- + Apply full resources of an asset manager’s team to your portfolio
- + Leverage financial industry’s latest technology

For Backseat Barbaras, advisors should phrase the usage of third-party models in connection with what this group of investors values a financial advisor for the most. Sample phrasing includes:

“We are partnering with an institutional money manager that will increase the overall financial expertise overseeing your portfolio. This will better equip me to navigate choppy market conditions. And with this help, I have more time to focus on you and make sure your best interests are always getting addressed.”

At the end of the day, it’s about delivering the right message to the right group of investors.

But don’t sweat it too much.

As we learned from our [Q&A with Shore Morgan Young](#)—when explained properly, the firm moved roughly 90% of their clients into third-party model portfolios without getting pushback from a single person.

If you’re an advisor interested in learning more about WisdomTree’s ETF Model Portfolios and our Portfolio & Growth Solutions program, fill out the contact form below.

1 <https://www.broadridge.com/resource/the-rise-of-model-portfolios> 2 2020 WisdomTree Third-Party Model Portfolios Research Study.

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