

Debunking the Myths of a Model Portfolio Approach

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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 manager 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.

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