

ETF Model Portfolios: Putting Our Money Where Our Mouth Is

Published December 20, 2019

Ryan Krystopowicz, CFA

Head of RIA Portfolio Solutions Distribution & Specialists

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.

It's that time of year again. The holidays are rolling in, and e-mail stockings are getting stuffed with year-end 2020 market predictions.

Will stocks have a positive year? Is the bull run for bonds over? These questions and many more get asked by your favorite asset managers, strategists and industry experts.

But this is not one of those articles. Today I want to make the case for how advisors can utilize the model portfolios published by asset managers and strategists as an additional source of asset allocation views.

How Advisors Can Utilize Model Portfolios in Their Practice

The first step is to access the model portfolio's allocations, whether that be from a website, fact sheet, presentation deck or other means. The next step is for an advisor to understand what is most important for them to make a decision on, such as the model portfolio's investment objective, holdings, rebalance frequency, ability to make active bets and other nuances.

You also want to drill down on the benchmark. What's the asset class mix of equity versus fixed income versus alternatives when applicable? Is it static or dynamic, based on market conditions?

Even within different asset classes, it's important to understand the base case of sector and geographical exposures. If you don't understand how the model is tactically positioned relative to its benchmark today, you will have a hard time reading into the rebalancing changes going forward. The last step is to be abreast of rebalancing changes that can occur periodically.

The initial due diligence mentioned above isn't as daunting as it may seem. In fact, many managers and model sponsors can help advisors obtain this information with ease.

As an example, WisdomTree's website has a page dedicated specifically to our proprietary [ETF model portfolios](#). Utilizing this resource can provide concrete answers for some of asset allocators' most difficult questions, such as:

- What percentage of a "Moderate" model portfolio should be allocated to U.S. equities versus abroad?
- Does it make sense to have dedicated emerging markets (EM) exposure?

- Should I allocate toward small caps? What about small caps outside of the U.S.?
- What factors make sense to tilt toward in today's market environment?
- How much high yield exposure should I have within a fixed income allocation?
- How do I strategically incorporate liquid alternative ETFs into a portfolio?
- How do I complement my core beta exposure utilizing WisdomTree ETFs in "less efficient" areas of the market?
- Where do I source equity income in a low interest rate environment?

There are a lot of reasons advisors have been attracted to utilizing third-party model portfolios, such as the ability to scale their practice or tap into a firm's global research team. I believe even non-model users can benefit from referencing model portfolios, as they can assist in asset allocation decisions.

The jury might still be out on who made the right calls in 2019, but I'm looking forward to seeing a range of market calls for 2020.

If there's one thing that's certain, it's that when the information comes from strategists and managers who publish their model portfolios, you're getting a real sense of who's putting their money where their mouth is.

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