Valuable Lessons from My Time Working at an RIA

Published March 20, 2023

Ryan Krystopowicz, CFA
Head of RIA Portfolio Solutions Distribution & Specialists

I accepted a role at a mid-sized RIA as a research analyst in 2011. Over the next four years, I had a pleasant experience learning the fundamentals of stock picking through "bottom-up" analysis. I also got to see firsthand the growth of the RIA industry and my employer's strategy to capitalize on it.

Reflecting on my experience, I deduced five ideas and concepts that would have been extremely valuable to know during my tenure—each of which is still relevant today.

1. Take advantage of the free tools and resources at your disposal, especially from asset managers' websites.

The democratization of research, performance attribution and fund due diligence is real. Tasks that previously required a Bloomberg Terminal to complete can now be gathered online for free.

From WisdomTree's perspective, this includes open-architecture tools featuring our Digital Portfolio Developer.

We built this tool to empower advisors to analyze their portfolio holdings of ETFs, mutual funds and stocks on demand. Additional features of this tool include stress tests, factor exposures, Monte Carlo simulations and white-labeled proposal generators for prospects.

2. Stock picking can be a giant waste of time.

From a philosophical standpoint, most independent advisors should abandon stock picking. As I've previously written, when it comes to stock picking, the odds of achieving success are low, it's suboptimal and performance isn't everything to clients.

From a firm-level standpoint, especially if trying to maximize the enterprise value, it's a waste of resources to have a team solely focused on that.

As we've previously written in *Four Habits of Highly Successful Advisors*, as opposed to building out an internal research team, RIAs that manage less than $1 billion–$2 billion in assets are better off driving scale, efficiency and profitability by outsourcing all or some of their portfolio management function.

3. Most people want help from financial advisors in areas beyond investments.

This was the case in 2011 and is even more evident today.

A recent research study found that only a third of Americans work with a financial professional. Among those who aren't working with an advisor, the biggest barrier they mentioned was the "perceived cost of advice."1

Overcoming this barrier probably won't be accomplished by picking stocks that outperform the S&P 500.

Instead, focus on where the "unadvised" needs the most help. The same study notes that those without an advisor listed retirement income planning, advice on Social Security and Medicare and developing a financial plan as the most appealing topics to get advice on.

Providing guidance on taxes came in at number four for Americans, but it's the most appealing topic for those considered "affluent."

4. Clients perceive advisors using third-party model portfolios positively.

As stock pickers, my previous RIA did everything in-house when it came to research and portfolio management. We believed it was the firm's value proposition and what was expected of us by our clients and prospects.

We could not have been more wrong.

Clients embrace the use of third-party model portfolios because they represent the collective knowledge and resources of a global research team.

For example, State Street Global Advisors' study found that 88% of investors agree that two benefits of advisors using model portfolios are (1) "my portfolio is being constructed by asset managers with more knowledge of the markets" and (2) "my advisor can focus on what really matters to me."2

5. Adopting a models-based practice can help mitigate risks from a compliance and regulatory perspective.

Managing dozens of in-house model portfolios with dozens of positions...trading the models with the best execution…documentation around stock recommendations and client suitability…

These were just a few examples of important functions that absorbed a lot of our time and energy.

Luckily, adopting a third-party models-based practice can help, and advisors over the years have agreed.

WisdomTree's property research study found that 73% of advisors agreed that models could support regulatory requirements through the key pillars of having a strict process, investment guidelines and due diligence.3

Another State Street Global Advisors' study found that two-thirds of outsourcers agree that model portfolios mitigate risk in a heightened fiduciary landscape. The study points out how outsourcing can potentially support a structured portfolio management framework as well as lead to more consistency in applying suitability standards to client recommendations.4

My reflection is your opportunity.

Bringing this all together: advisors should consider the free resources at their disposal, avoid stock picking as their value proposition and focus on what really matters to individuals, keep an open mind toward utilizing third-party model portfolios and understand how models can potentially mitigate risk for your practice.

If you’re an advisor interested in learning more, fill out the contact form below.

1 Everyday Wealth in America—2022 Report: The Intersection of Life and Money. An online survey conducted by Greenwald Research on behalf of Edelman Financial Engines. https://www.edelmanfinancialengines.com/wp-content/themes/EFE_Divi_Child_Theme/images/survey-report/Everyday-Wealth-in-America-2022-The-Intersection-of-Life-and-Money.pdf 2 "How Do Clients Really Feel About Model Portfolios" https://www.ssga.com/library-content/pdfs/etf/us/how-do-clients-really-feel-about-model-portfolios-article.pdf 3 2020 WisdomTree Model Portfolio Research Study. 4 State Street Global Advisors' Practice Management Global Study, Advisor Productivity: Embracing Asset Allocation Models, 2019. https://www.ssga.com/library-content/pdfs/etf/us/model-portfolio-solutions-and-the-client-experience.pdf

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