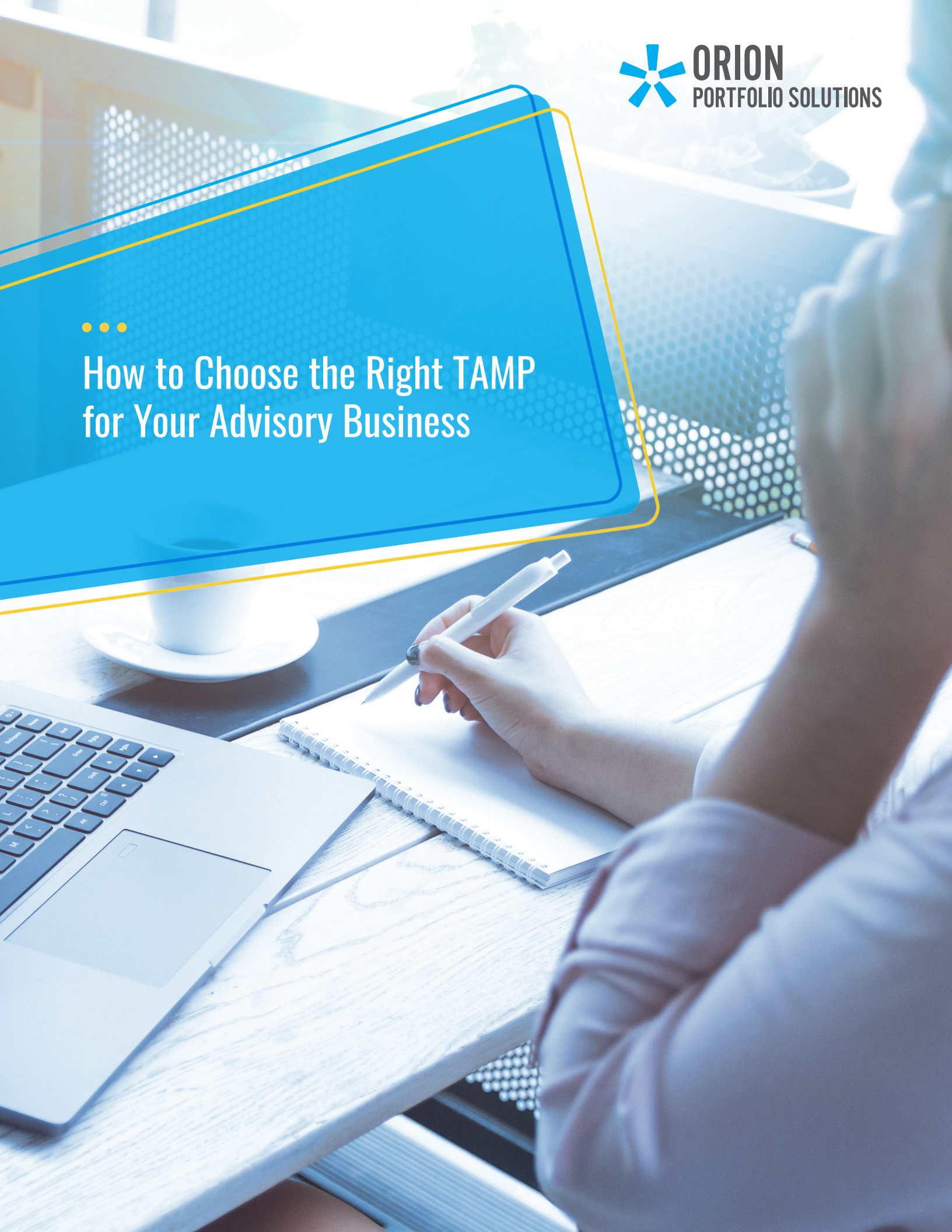


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## How to Choose the Right TAMP for Your Advisory Business



# TABLE OF CONTENTS



Introduction	p. 3
Industry Trends	p. 4
Factors to Consider	p. 6
Practice Management Benefits	p. 8
Profiles of Successful Advisors	p. 9
About Orion Portfolio Solutions	p. 10

# INTRODUCTION

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The trend for outsourcing investment management is growing quickly in wealth management - assets in Turnkey Asset Management Platforms (TAMP) will hit nearly \$4 trillion in 2019, up from just over \$2 trillion in 2017. Many advisors are finding that they can better manage their client relationships, enhance their service offering, and create economic and operational efficiencies by leveraging their time, resources, and back offices via a full-service TAMP.

According to Fidelity research, advisors who outsource investment management are growing faster, have higher incomes, and manage more AUM than those who don't. Additionally, with the evolution of technology change, the emergence of robo advisors, and more transparency into the investment process, many industry experts agree that the traditional in-house investment offerings of advisors are rapidly becoming commoditized.

As a result, advisors need to find new ways to differentiate their service offering by working with institutional-caliber money managers in an efficient process, supported by the latest technology so that they can continue to add value to clients. Basic asset allocation and buy

and hold approaches are no longer a sustainable long-term model for advisors anymore, forcing firms to seek out more sophisticated and comprehensive offerings.

Thus, the industry has seen the rapid growth of the TAMP offering, however, there has been much consolidation in the TAMP space and the market is evolving, which is creating complexity in choice for advisors. Advisors looking to grow, compete, and succeed can find many potential benefits by working with a TAMP, but what considerations should they factor into their decision? Which one should they choose? What is the best choice for their clients, staff, and business?

There are several key factors advisors should consider in this very important decision. Areas such as investment philosophy, investment choices, service levels, technology offerings, pricing, value added programs, company culture, and more. Accordingly, this white paper will discuss the trends in the TAMP space, outline the considerations for choosing the right TAMP, and provide the practice management benefits for outsourcing this key service offering in order to take their business to the next level.

# INDUSTRY TRENDS



## The trend to outsource investment management has been increasing dramatically.

Tiburon Strategic Advisors estimates that TAMPs held \$2.2 trillion in assets under management and administration in 2017. These TAMPs now serve 180,000 financial advisors (up from 800 in 1995) and 3.9 million clients up from 10,000 in 2001.<sup>1</sup> Growth is projected to be 4.5 million clients and \$3.9 trillion in assets by 2019,<sup>2</sup> as 43% of advisors are now outsourcing some or all of their investment management functions to deliver more value to clients.<sup>3</sup>

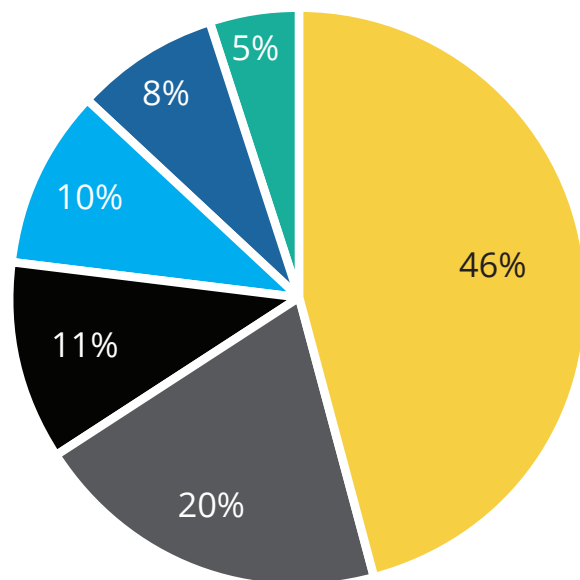
And there is good reason for this expansion. Advisors using TAMPs have better economics, and increased capacity and scale for growth. Outsourcing enables advisors to manage more

assets (\$145mm vs \$110mm) and enjoy greater compensation (\$365k vs \$335k)<sup>4</sup> than those who manage investing in-house. This operational leverage provides powerful time savings and capacity increases, which pay off in the form of an incremental \$1 million more in revenue over a 10-year period<sup>5</sup> vs. those who are bogged down with an in-house investment operation. Anecdotally, this benefit also pays off in that nearly half of advisors say that they are able to better service clients by outsourcing.<sup>6</sup>

Now more than ever, advisors are pressed for time and they are being limited by capacity. According to Cerulli, advisors are only able

## Where Advisors Spend Their Time<sup>8</sup>

- Client Service/Operations
- Back Office and Administration
- Managing Assets
- Trading and Portfolio Management
- Business Development
- Training



1 <https://www.thewealthadvisor.com/article/ramping-tamps-2019-and-beyond>  
2 <https://www.thewealthadvisor.com/article/ramping-tamps-2019-and-beyond>  
3 <https://clearingcustody.fidelity.com/app/literature/item/9888456.html>  
4 <https://clearingcustody.fidelity.com/app/literature/item/9888456.html>  
5 <https://www.advisorperspectives.com/articles/2018/10/09/the-benefits-and-tradeoffs-of-outsourced-investment-management>

6 <https://clearingcustody.fidelity.com/app/literature/item/9888456.html>  
7 Cerulli Associates, US Advisor Metrics, 2016  
8 Cerulli Associates, US Advisor Metrics, 2016

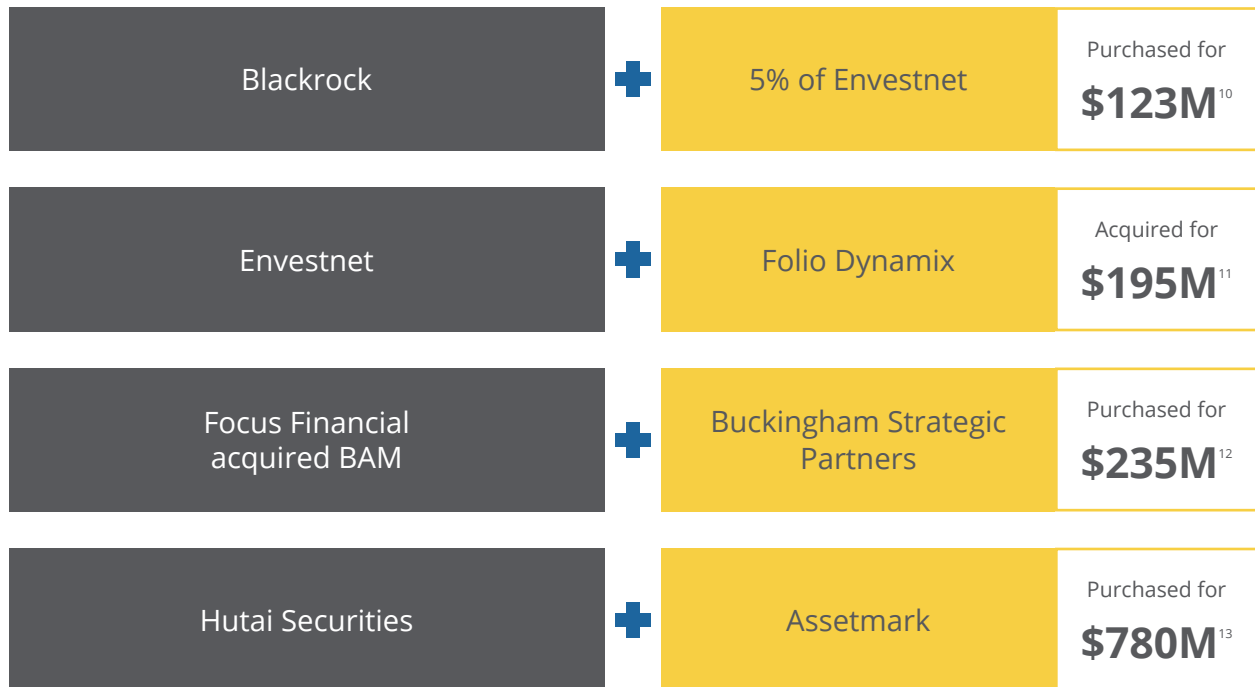
to spend 8% of their time on new business development, yet spend over half of their time on back office tasks.<sup>7</sup>

In these fast moving, technology evolving times, it is more difficult for advisors to differentiate their offering of traditional investment product selection, asset allocation, and rebalancing. These once valued services are now being commoditized by technology, with fees correspondingly declining to zero. According to Statista, assets managed by low-cost robo advisors are projected to hit \$2.6 trillion by 2023, and currently are just under \$1 trillion,<sup>9</sup> remarkable growth from a category that didn't exist 5-7 years ago.

As a result, human advisors need to evolve to justify their 1% fees and stand out in a commoditized environment by partnering with sophisticated investment strategies. Additionally, the Fiduciary movement to put clients' interest first is continuing, despite the repeal of the DOL rule, which results in more documented processes, further due diligence, increased transparency, and audit trails that also fuel the need to outsource to a comprehensive platform that can provide all of this compliance in an efficient, scalable manner.

Thus, the case to outsource and work with a TAMP is compelling, but which one should you choose – what do you need to consider?

## Rapid Consolidation - TAMP M&A:



9 <https://www.statista.com/outlook/337/100/robo-advisors/worldwide>

10 <https://riabiz.com/a/2018/11/29/blackrock-buys-envestnets-love-for-123-million-to-crack-its-open-architecture-platform-and-sets-stage-for-another-juicy-envestnet-acquisition>

11 <https://www.financial-planning.com/news/envestnets-195-million-deal-for-foliodynamix-platform>

12 <https://www.investmentnews.com/article/20180928/FREE/180929917/focus-financial-acquires-tamp-for-235-million>

13 <https://www.bloomberg.com/news/articles/2016-04-12/huatai-securities-to-pay-780-million-for-assetmark-in-expansion>

# FACTORS TO CONSIDER



**Because there are a number of leading TAMP providers in the industry, and there has been much consolidation, innovation, and growth, now more than ever, advisors need to have a game plan and decision matrix to best choose their partners.**

There are a number of factors to consider when selecting the right TAMP for your business.<sup>14</sup> These include:

## **Investment Philosophy, Process, and Performance**

With the variability of TAMPs in the industry, there are many strategic approaches to investing. Are they passive, active, or tactical? Do they favor funds over separate accounts? Do they focus on ETFs, individual securities, or do they provide a wide menu for all of the above? Do they have a defined and easily articulated process? Do they stand behind their performance? These are all questions to ask your potential TAMP partner in order to make the best choice for your approach, preferences, and the types of clients you work with.

## **Due Diligence**

One of the biggest benefits of leveraging a TAMP in your business is the availability of multiple professionals on staff and corresponding systems to ensure that a TAMP's investment lineup has been vetted and is monitored ongoing. Conducting due diligence on managers and investment products is a big factor in ensuring that your fiduciary requirements are met. Access to pre-vetted investment options can also save you valuable time and resources, which can be applied to other areas of your business. As you review TAMP options, this is a critical aspect you need to be comfortable with prior to deploying client assets.

## **Broker-Dealer, RIA Custodian, and Platform Integrations**

While most TAMPs are multi-custodian and work with most broker-dealers, not all of them do. Accordingly, this is a key question to research to find out if they work with your B/D, custodian, or other platform, and understand if they are available directly to you or if you have to go through a B/D or custodian to access them. There can be additional fees charged, whether they are available direct or through a third-party, so this is also another important consideration to factor into your decision.

## **Technology Stack**

One of the biggest benefits advisors gain from working with a TAMP is the ability to leverage the technology they provide, so you don't have to select, pay for, and manage your own investing tech stack. Additionally, some TAMPs offer third-party tools such as CRM, Financial Planning, Risk Analysis, Proposal Generation, and more as part of their TAMP bundle. Some TAMPs have gone to great lengths to integrate these tools together, and depending on fees charged, advisors can gain tremendous operational efficiencies and cost savings.

## **Technology Ease of Use**

Not all technology platforms are the same – some are easier to use than others, which has a huge impact on adoption with staff, and the ability to achieve the operational efficiencies that are at the heart of the TAMP value proposition. Accordingly, ensure that the provided interface is intuitive, easy to navigate, and minimizes data entry. Daily workflows such as trading, running reports, service requests, and the like should be easy to manage and navigate.

<sup>14</sup> [https://www.kitces.com/blog/best-tamp-costs-service-technology-platform-ideal-financial-advisor-client-profile/?utm\\_source=email&utm\\_medium=Social&utm\\_campaign=ShareBar](https://www.kitces.com/blog/best-tamp-costs-service-technology-platform-ideal-financial-advisor-client-profile/?utm_source=email&utm_medium=Social&utm_campaign=ShareBar)

## Service and Support

Across the TAMP industry, this is the aspect that varies the most. Some TAMPs just provide a level of support and service for the investing and trading components, while others provide a very robust offering. Areas such as client onboarding, client servicing, investment specialists, and even marketing and proposal generation can be powerful benefits that further leverage your staffing and infrastructure, helping you to close business and manage relationships efficiently and effectively. Combined with the available technology, ample service support can greatly increase capacity, scale, and growth.

## All in Client Costs

Another key aspect to consider is the TAMP pricing, combined with your fees, that make the “all in” cost for your clients. Some advisors just layer their fees on top of the TAMP fee, and charge it all to the client. Some advisors recognize that some of the costs that they would have incurred are being subsidized by the services and technology of the TAMP, and blend their fees accordingly. Like most things in this world, you get what you pay for. Some TAMPs provide more components, technology, and services which equate to higher fees, while others are very basic, providing less, for lower fees. Thus, in a more challenging environment, finding a competitive price point that provides profitability is a very big consideration in which TAMP you select.

## Target Advisor Profile

Just like advisors have target clients in terms of assets, complexity, and needs, so too do TAMPs. Some TAMPs have AUM minimums and are expensive to work with at lower AUMs, while some TAMPs value larger relationships and will scale their costs lower accordingly. Another consideration is end-client complexity and size. Some TAMPs have a very broad offering, with

alternative asset classes included, investment specialists on staff, and more to accommodate HNW clients, while others have very basic offerings that are focused on model portfolios for mass-affluent investors. Your book of business and target client has a very big influence on which type of TAMP you might choose to work with.

## Value Added Programs

Running an efficient, profitable, and scalable business is a top priority of all advisors, and there are many best practices, tools, resources, and business management programs in the industry that TAMPs make available. Clearly, if advisors are growing, so will the TAMP, which incentivizes them to make value-added programs available. Some TAMPs host large conferences for top advisors to network for ideas and learn the latest trends, while others provide business coaching, marketing, and practice management programs, and most offer up some form of technology tools for free or at discounted rates. As you look at your business needs, understanding what is available can be another key decision factor.

## People and Culture

After reviewing all of the above aspects, your decision may come down to the people and culture of the organization. It is a competitive space, so pretty much all TAMPs provide quality services and technology. However, understanding the history, philosophy, personalization, and commitment to the industry of your TAMP partner can be much more important than any one aspect. A boutique offering and personalized culture, while a bit more expensive, can be much more valuable to your business than a big box, publicly traded, trillion-dollar behemoth who has to cater to the lowest common denominator in order to achieve the scale it needs. As mentioned, there has been much consolidation in the industry, often at the expense of the TAMP's ability to stay committed to advisors across market cycles. Choose wisely.

# PRACTICE MANAGEMENT BENEFITS OF TAMPs



As stated above, there are many practice management benefits for working with a TAMP, including:

- **Find More Time** – Leveraging a TAMP frees up valuable front and back office resources that can be applied to managing client relationships, and increasing productivity, capacity, and growth.
- **Manage Growth** – Added capacity by outsourcing time-consuming activities related to investment management provides you with an efficient, scalable platform and infrastructure to add AUM without adding staff.
- **Enhance Client Experience** – A TAMP’s client portal provides a compelling, digital environment and experience for clients to access reporting, see their investment options, progress towards goals, and review overall performance.
- **Expand Client Base** – The many investing options from a comprehensive TAMP enables you to work with a range of client types, including HNW clients who seek more sophisticated solutions.
- **Streamline Daily Workflows** – A TAMPs service and support team, combined with efficient technology, simplifies and expands your ability to leverage your infrastructure and staff, enhancing productivity.
- **Enhance Profitability** – By outsourcing costly activities related to portfolio construction, billing, proposal generation, reporting, and more – while being able to charge a premium for your advice, may boost the size of your income statement, potentially making your firm more profitable and valuable.
- **Differentiate Your Firm** – Leveraging the sophisticated investment solutions from a comprehensive TAMP provides you with a compelling marketing message, helping you attract and serve more HNW clients.



## Advisor Profile: Oakeson Steiner

Oakeson Steiner (OS) was established 25 years ago as a broker-dealer contractor representative, and experienced success, however, in the last decade the principals knew they needed to evolve away from transactions and into advice in order to stay relevant and profitable. Their traditional mutual fund wrap approach from their mega-broker-dealer wasn't efficient for the firm or clients, calling for a need to enhance their investment offering. As part of that strategic decision process, OS was considering becoming an RIA or joining an existing RIA.

A key aspect of this decision was to evaluate the pros, cons, and costs of acquiring and building the tech stack needed to operate as an RIA and managing portfolios directly (with all of the performance reporting, portfolio management, rebalancing, and staff that goes with it).

As OS conducted its due diligence, they reviewed the access to numerous, quality, researched managers, investment options, and technology provided by Orion Portfolio Solutions to determine if it would meet their needs to customize and tailor offerings to their vast and diverse client base.

"One size does not fit all and we have 1,500 clients so we needed a broad offering to tailor to our clients," Josh Yost, Managing Partner at Oakeson Steiner recalled.

According to Yost, "We wanted to be in the client relationship business, not the money management business. Our vision was to become a better financial planning firm, and we could only do that if we worked with an investment and technology partner."

"Human capital is a very expensive thing," said Yost. "As we examined our choices, that was a very critical aspect of our decision. Accordingly, when OS selected Orion Portfolio Solutions as their TAMP, they immediately gained leverage. "We went from 3 service people in the back office to 1 at the time, and now that we have grown the firm to north of \$850 million in AUM, we are back to 3."

"Many advisors think of TAMPs for small accounts – we disagree, we think they are fantastic for large accounts. We even have some as large as \$4 million with Orion Portfolio Solutions."

"If I lost my entire back office staff tomorrow, I firmly believe that we would not miss a beat," Yost concludes.

## Advisor Profile: Garrison Financial

Garrison Financial was founded by Ryan Garrison in 2012, as an offshoot of his structured settlements annuity business. Oftentimes, his clients would receive large sums of money from various legal settlements and ask him about a broader set of financial and investing questions, leading him to establish a wealth management operation to meet their needs.

"I basically started my investment management business from zero," said Garrison. "However, I knew that in order to be successful and profitable, I needed a partner I could outsource to for efficiencies, scale, and growth."

As part of that search, Garrison selected Orion Portfolio Solutions for access to a custodian, technology, and investment options. "As a small firm, it was very difficult to find anyone that would work with me at zero assets, so I really appreciated the opportunity to work with the people at Orion Portfolio Solutions, who helped me get up and running quickly."

Orion Portfolio Solutions provided Garrison a "paperless" process to onboard new clients through its many integrations with Riskalyze and TD Ameritrade. "Operational efficiencies are critical as a startup because you are not going to get the million-dollar clients right away – that takes time. With Orion Portfolio Solutions, I was able to profitably onboard \$100,000 clients, run them through a risk tolerance analysis, and establish the account all from a link in an email."

As Garrison has grown his firm, he appreciates the many sophisticated investing options provided by Orion Portfolio Solutions. "If I'm in a competitive situation with a larger firm staffed with CFAs and CFPs, I can access sophisticated separate account managers who can do tax loss harvesting, more tactical investing approaches, and who provide an institutional feel that really helps to close business."

Going forward, Garrison is looking to acquire additional books of business from retiring advisors as a growth strategy that he believes he can integrate easily into his practice. "Instead of staffing up to handle the additional volumes, I know I can rely on Orion Portfolio Solutions to streamline the process. Not only in that aspect, but also in their service offering. They really care about my business, get it right and that provides me a great peace of mind that I'm working with the right partner."



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