

# How Do Clients Really Feel About Model Portfolios?

Some advisors worry that outsourcing portfolio management might hurt their value proposition. Our research suggests that using model portfolios may actually boost client satisfaction.

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With the financial services industry facing transformational changes in regulations, technology, investment products and fee structures, many advisors understand that their success depends on something they can still control: Creating strong client relationships.

In new research from State Street Global Advisors, advisors say that their top two business goals for the next three to five years are acquiring more clients and deepening relationships with existing ones. Yet the day-to-day demands of running a practice may make it difficult to focus on those goals. In fact, advisors surveyed report spending more time on investment management than on either client-facing activities or prospecting.

One potential solution for this challenge is to outsource portfolio management by putting client assets into model portfolios — investment strategies created and maintained by large asset managers that employ teams of experienced investment professionals. And in fact, more than 50% of advisors are using model portfolio solutions to help them scale their businesses and serve more clients more efficiently.<sup>1</sup>

Outsourcing does not mean optioning out of investment responsibilities on behalf of clients. Advisory practice maintain their rigorous process for selecting portfolios that reflect client goals and risk tolerances, using transparency into the strategy's investment objectives and portfolio construction in their decision process.

Still, many advisors are reluctant to adopt model portfolios. Some advisors believe that models may limit their ability to customize and personalize client portfolios. Likewise, many advisors are concerned that outsourcing portfolio management means ceding a critical role to someone else, thereby diminishing an advisors' value proposition for clients and prospects.

Client sentiment and satisfaction are critical factors in a firm's success, so we sought to understand clients' perception of — and experience with — model portfolios. The results are surprising.

## Investors Understand Model Portfolios and Appreciate Their Benefits

Our survey explored a key question: Are investors familiar with the concept of model portfolios? It turns out that the majority of investors (62%) know what model portfolios are, and half of that group says their advisors have some or all of their assets invested in a model portfolio.<sup>2</sup>

Even investors who don't have assets in model portfolios are overwhelmingly open to using them: Only 10% say they don't like idea and would seek another advisor if theirs suggested investing in a model portfolio.<sup>2</sup>

We went further to investigate how outsourcing portfolio management affects the client experience. Again, clients with assets in model portfolios strongly support their use and report positive impacts. It seems that these investors see the big picture: Using model portfolios frees their advisors to dedicate more time and energy to client relationships, resulting in a better understanding of each client's unique circumstances.

What's more, investors are sophisticated enough to recognize specific benefits related to performance, risk and fees. Below is a list of statements about model portfolios that 80% or more of clients agree with.

Figure 1  
Investor Views on the Benefits of Model Portfolios

Benefits of Model Portfolios	Total (%)
My portfolio is being constructed by asset managers with more knowledge of the markets	88
My advisor can focus on what really matters to me	88
My portfolio has a track record that fits my risk tolerance	86
My advisor can spend more time helping me make more intelligent financial planning decisions	84
My advisor can be more flexible to my needs	82
I am better protected by a robust compliance structure	81
There is more robust due diligence on my portfolio	80

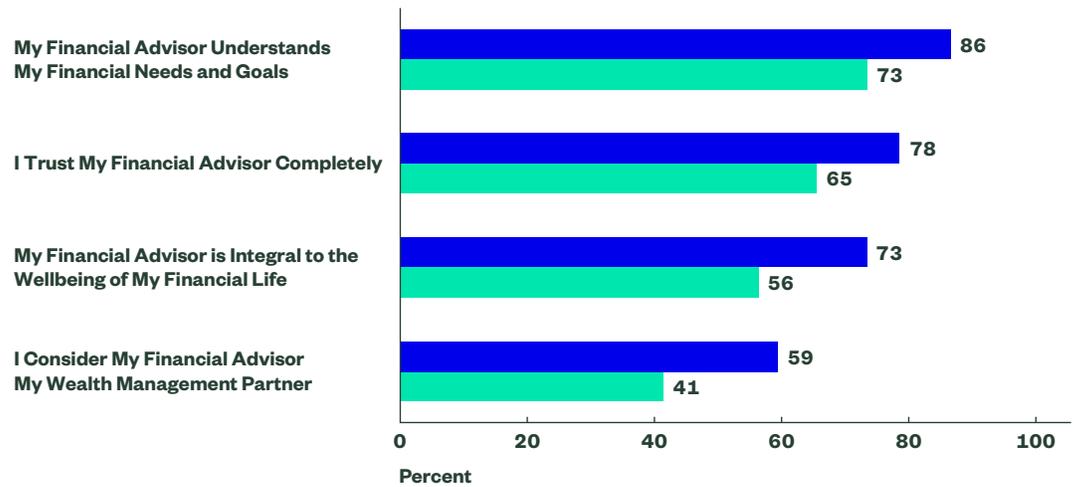
Source: State Street Global Advisors' Practice Management Global Study, *Advisor Productivity: Embracing Asset Allocation Models*, 2019. Q: Is the following a benefit to you because your advisor has your assets in a model portfolio? (select all that apply; base 25; summary of "yes, a benefit").

The combination of greater personal attention from their advisors and high confidence in their investment portfolios generates strong feelings of trust and satisfaction among clients. Clients with assets in model portfolios are far more likely to say that their advisors understand their goals, that they trust their advisors and that they see them as integral partners in their financial wellbeing.

Figure 2

**Clients with Assets in Model Portfolios Rate their Advisors More Favorably**

■ Assets in MPs  
■ No Assets in MPs



Source: State Street Global Advisors' Practice Management Global Study, *Advisor Productivity: Embracing Asset Allocation Models*, 2019. Q: Please indicate how much you agree or disagree with the following statements. 5-point scale. Percentages reflect participants who selected "agree" or "strongly agree".

Finally, we asked the investors a simple question about their overall satisfaction with their advisor. Once again, clients with assets in model portfolios give higher marks: 85% say they are very or extremely satisfied with their experience, compared with just 73% of clients with no assets in a model portfolio.<sup>3</sup>

**Focusing on Relationships for the Good of the Client — and Your Practice**

Taken together, these survey results indicate that outsourcing portfolio management doesn't diminish an advisor's role in the eyes of clients. In fact, it may help strengthen a firm's value proposition by allowing for deeper advisor-client relationships.

Most advisors understand that clients want more than portfolio management. Offering better financial planning services and helping clients manage and modify their behavior in the face of market movements are just two ways that advisors can deliver meaningful improvements in clients' financial results.

For their part, advisors tell us they are in this business to do more than manage investments. Many say that building long-term relationships with clients in their favorite part of the job.

Adopting model portfolios can help advisors spend more time on those critical elements of their practice that result in better client service and deeper, more fulfilling relationships. It's a simple equation: Creating economies of scale in investment management allows advisors to spend their time on what matters most to their clients and to their practice.

**Endnotes**

- 1 Cerulli Associates, *The Cerulli Report | U.S. Exchange-Traded Fund Markets*, 2017.
- 2 State Street Global Advisors' Practice Management Global Study, *Advisor Productivity: Embracing Asset Allocation Models*, 2019.
- 3 State Street Global Advisors' Practice Management Global Study, *Advisor Productivity: Embracing Asset Allocation Models*, 2019.

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