Outsourcing Gains Widespread Acceptance

It’s getting tough out there for advisors. Growing demands from clients. Increased competition. Rising costs. And, most recently, enough market volatility to rattle the most stalwart of investors.

Can you feel the heat? Is the pressure mounting?

There is a way to turn down some of the pressure – by outsourcing your investment management and operations functions. And, while it won’t make the challenges go away, it will help relieve much of the pressure and let you focus more on your client relationships and needs.

“As the product universe continues to expand, separating the wheat from the chaff becomes increasingly burdensome and important.”

– Cerulli Associates, 2007 Advisor Survey

There’s growing recognition from all corners of the industry – research firms, the media and investment advisors themselves – that one way to remain competitive is to outsource labor-intensive tasks like investment management. According to a recent survey by Cerulli Associates, more than one third of advisors are inclined to outsource at least some of their investment management and operations.¹

The reasons are compelling.

• Need to focus more time on client relationships and business development;
• Increasing complexity and time demands of portfolio construction, monitoring, and rebalancing;
• Escalating labor costs, especially for highly compensated investment professionals;
• Need to provide clients with a level of diversification difficult to achieve using internal resources.

Managing Product Proliferation

One reason for the inclination to outsource is the seemingly endless proliferation of investment strategies and products in recent years. Whether it’s hedge funds, private equity or ETFs, the multitude of new offerings is making the portfolio construction process more demanding than ever. According to Cerulli, 75% of advisors polled said the influx of products has made portfolio construction more complex and time consuming.

PORTFOLIO CONSTRUCTION PROCESS BECOMING MORE COMPLEX

(Percentage of all advisors)

* Source: 2007 Cerulli Advisor Survey
These changes mean the days of a lone analyst building portfolios for the firm’s client base is rapidly fading. The knowledge requirement is too great, the options too numerous. To meet the expectations of the discerning investor, more and more firms are seeking help. Even those who believe building portfolios is vital to their client relationship are creatively repositioning themselves. Many are assuming the role of “quarterback” — fully in charge of their client’s financial plans, but backed by a team of specialists.

**Staying Competitive**

Demands from clients are no less urgent than the need to grow the firm. This is evident in a recent study by Seattle-based consultant Moss Adams. More than 20% of the 1,000 advisors surveyed said bolstering business development tops their list of priorities.²

However, most advisors understand that effective marketing can stretch the resources of even the largest firms, which brings us back to the wisdom of outsourcing. For example, according to the same 2006 Moss Adams study, advisors who outsource are generally more profitable because they have more time to service existing clients and garner new ones. The study’s comparison of advisors who work with SEI to other firms underscores the point.

**Advisors who work with SEI:**

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<th>Managed</th>
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<th>More Assets</th>
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While there is no guarantee other advisors can duplicate those achievements, the Moss Adams study points to the benefits of outsourcing.³

Leonard Raskin of Wealth Advocacy Partners in Sparks, MD, said that outsourcing has made life easier for his staff and allowed him to “serve my clients, find more clients and help people.”

Johnne Syverson expresses the advantages more quantitatively. Syverson, co-founder of Syverson Strege & Company in West Des Moines, Iowa, manages $300 million in assets with three CFAs and eight CFPs on staff. He told Registered Rep in April that outsourcing to SEI has drastically reduced time devoted to asset management. Before he began partnering with SEI, he said, selecting funds for clients “used to take about 65 percent of our time. And now the investment management process takes 20 percent of our time.” While his firm continues to do the asset allocation for their high-net-worth clients, “SEI has taken the complexity out of the portfolio-construction process.”⁴

**No Sacred Cows**

Bob Clark, an industry observer who writes for Investment Advisor Magazine, said “it’s time to take a hard look at all the labor-intensive tasks performed by advisory firms to see if they can be effectively outsourced to someone else.” In addition to investment management, candidates for outsourcing include operations, investment technology, reporting and compliance. “Portfolio management, as probably the most labor-intensive task handled by you or your staff, shouldn’t be a sacred cow,” Clark said.⁵

To some advisors, letting go of investment management is difficult because they believe it is core to their value proposition. But Lisa A.K. Kirchenbauer, an advisor in Arlington, Virginia, sees it otherwise. Kirchenbauer, a financial life planner, outsources many functions, including money management. “I’ve made the change because I realized that investment management is really more of a commodity and tangential to the overall financial planning work I do,” she told Investment Advisor.⁶

Some firms consider adding to staff, as opposed to outsourcing, but that’s problematical in a period of rising labor costs. A 2007 Moss Adams study on Compensation and Staffing for Advisory Firms underscores the pressure on compensation, especially at the senior level. In addition to rising salary costs, more and more firms are obliged to offer incentive pay and benefits like defined contribution plans.
Avoiding Difficult Conversations

Shedding those time-intensive chores is especially valuable during periods of high market volatility, when clients are nervously eyeing their portfolios. During such times, it’s vital to educate clients about the markets – volatility, risk and the importance of patiently sticking to a long-term plan. But those conversations take time, the one thing most advisors lack.

Outsourcing is also an opportunity to provide your clients with a depth of diversification tough to find elsewhere, which can help avoid those difficult conversations about underperformance. At SEI, for example, most portfolios use multiple managers in a single style, each practicing a distinct approach to investing. If any one manager should underperform – for any reason – it will not significantly impact performance.

In that situation it is also important to educate clients on the value of a long-term investment. Michael Byrne at Sagemark Consulting in Cherry Hill, New Jersey, uses a race car analogy. “In a NASCAR race, everyone wants to be the first car around the track. When clients come with us, I guarantee them that they will not be in the fastest car. My goal is to get them around the track without an accident so they can retire and so their kids can go to college.”

About the SEI Advisor Network

The SEI Advisor Network provides independent advisors with outsourced wealth management platforms that are designed to meet the demands of a new generation of wealthy clients. In an evolving wealth management industry, the Advisor Network offers an end-to-end process for successfully transforming their clients’ businesses in every critical area, including marketing, practice management, asset management, administration and operations and client relationship platforms. The SEI Advisor Network is a strategic business unit of SEI.

If you’d like a partner in helping your clients get around the track – and help you turn down the heat a few degrees – consider outsourcing at least some of your investment management and operations to SEI.

For more information, visit www.seic.com/advisors or call 1-888-SEI-ANSWERS (1-888-734-2679) to speak with a representative.

Clients listed were chosen to show a sampling of the client base and do not necessarily approve of all services provided.

1 Cerulli Associates Advisor Metrics 2007
2 2006 Moss Adams Financial Performance Study of Advisory Firms. Study based on 370 advisors that work with SEI out of 747 total responses.
3 Ibid.
4 Registered Rep, April 16 2008.