YCHARTS

ADVISOR SENTIMENT SURVEY

Coronavirus, Third-Party Models & In-house Portfolio Management

Whether using third-party models or building portfolios in-house, COVID-19 has pushed financial advisors to become more involved with portfolio management.

INTRODUCTION

Portfolio management has long been a cornerstone of relationships between financial advisors and their clients. However, the rise of planning-first firms, evolving client needs, and new expansive offerings from asset managers have added a new dynamic to portfolio management for some advisors and their firms.

In light of these emerging trends, YCharts set out to learn how comfortable advisors are leveraging third-party portfolio strategies, and the perceived impact that outsourced investment management has on their relationships with clients. We also wanted to understand how significant market events, such as COVID-19, impact the advisors' willingness to be hands-off when it comes to their clients' investments.

As the findings of this survey reveal, financial advisors are still divided on third-party investment strategies and their likeliness to adopt such solutions. Advisors see certain benefits and trade-offs to both styles of investment management, and the choice between the two often boils down to what your firm sees as its primary value-add to clients. However, the COVID-19 pandemic and its effect on capital markets has added new variables to advisors' decision between outsourced portfolio strategies and in-house management.

We surveyed over 300 financial advisors on both sides of the aisle to find out why they chose to either build portfolios in-house or leverage third-party models, and how unexpected market volatility has affected their confidence in that choice. The results indicate that while third-party models and in-house management have their unique merits, advisors want and need to be more involved with portfolio management, especially during times of heightened uncertainty.

Advisors using third-party model portfolios benefit from extra time to spend with clients, but not cost savings or performance gains—advisors who build their own portfolios mirror those sentiments

For most advisors using third-party model portfolios, the biggest advantage is time savings, which they say frees-up more opportunities to connect with clients or prospects, or complete back-office tasks.

Cost savings and improved portfolio performance are, however, not seen as advantages of outsourced investment management, with half of respondents disagreeing or strongly disagreeing that they're realizing those benefits.

> [With either option,] there is a trade off between scalability and personalization.
>
> **– SURVEY RESPONDENT**

What are the biggest advantages of third-party model portfolios?

72% Have more time to spend with clients and prospects.

55% Have more time to spend on due diligence and back-office tasks.

What are the biggest disadvantages of third-party model portfolios?

76% Portfolio management is part of our firm's value proposition.

71% Clients expect a more personalized service.

67% We don't like turning over control of client assets.

SOURCE: YCHARTS SURVEY

What are the biggest advantages of building portfolios in-house?

91% It's easier to tailor solutions that meet specific client needs.

90% We can give our clients a more persionalized service.

89% We have total insight and clarity into the investment decision making process.

What are the biggest disadvantages of building portfolios in-house?

40% We have less time to spend with clients and prospects.

38% It's expensive and/or time consuming to run our own due diligence.

SOURCE: YCHARTS SURVEY

From the perspective of advisors building their own portfolios, less than half find that it's difficult and/or expensive to build high-performing portfolios themselves. That said, about a third of these advisors do acknowledge that a trade-off of managing portfolios in-house is having less time to spend with clients or completing administrative tasks.

> *[By building our own portfolios,] it's also easier to align our investment positioning with our economic outlook, which we routinely discuss on client calls. With third party managers, to a certain extent, you're at their disposal as far as what they choose to do.*
>
> **– SURVEY RESPONDENT**

Extreme market volatility has reduced advisors' comfort level with third-party model portfolios—especially advisors who outsourced portfolio management in the last year.

Most advisors leveraging third-party model portfolios are still comfortable doing so. But as a result of sustained market volatility, 2 out of 5 advisors who onboarded third-party portfolios in the last year feel much less comfortable with those solutions.

How has COVID-19 affected your comfort level with using third-party model portfolios?

Experience w/ Third-Party Models	UNDER 1 YEAR	OVER 1 YEAR
MUCH MORE COMFORTABLE	3%	2%
SLIGHTLY MORE COMFORTABLE	11%	12%
SAME COMFORT LEVEL	43%	51%
SLIGHTLY LESS COMFORTABLE	3%	26%
MUCH LESS COMFORTABLE	41%	9%

Even so, almost 60% of advisors are not planning to make any adjustments in their use of third-party models in light of COVID-19's effects. The other 40% of advisors are split on increasing or decreasing their usage.

The inability to make "apples to apples" comparisons has impacted advisors' adoption of third-party models, and marketing materils don't help.

More than half of advisors say the most difficult thing about evaluating third-party model portfolios is making "apples to apples" comparisons across different providers. Also, many find the marketing materials for third-party solutions are often one-sided.

Nearly 9 in 10 advisors do not use a model marketplace to access third-party portfolio strategies. Of those not using a model marketplace, a little less than half would be interested in using one in the future. Additionally, only about a third of advisors already using a model marketplace said they will likely use it less in the future.

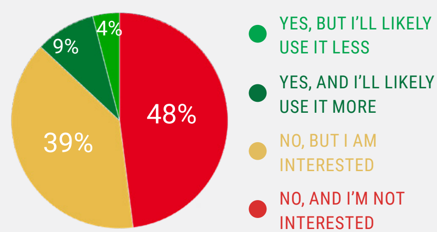
Are you planning to change your use of third-party model portfolios in light of COVID-19?

↑ 20% plan to increase investment in model portfolios

↔ 58% not planning any changes

↓ 22% plan to decrease investment in model portfolios

Are you currently using a model marketplace to access portfolio strategies?



ADVISORS WHO BUILD PORTFOLIOS IN-HOUSE ARE EQUALLY OR MORE CONFIDENT IN THEIR INVESTMENT STRATEGIES EVEN AFTER 2020'S SUSTAINED VOLATILITY.

4 of 5 advisors

that build custom portfolios in-house do so because investment management is part of their value proposition to clients and prospects.

60%

cited control and flexibility as motivators for managing investments in-house.

More than half

that build portfolios in-house cited no change in their level of comfort with their strategies in light of COVID-19, **while over 40%** said they are even more confident since the pandemic affected capital markets.

SOURCE: YCHARTS SURVEY

What were the main drivers to build portfolios in-house?

(Advisors asked to check all that apply, top responses shown here)

79% Investment management and research is part of our value proposition.

By Assets Under Management

UNDER $100M AUM	75%
OVER $100M AUM	83%

62% We want to be as flexible as possible with client assets.

By Assets Under Management

UNDER $100M AUM	56%
OVER $100M AUM	74%

How has COVID-19 affected your comfort level with building portfolios in-house?

31%	MUCH MORE COMFORTABLE
11%	SLIGHTLY MORE COMFORTABLE
57%	SAME COMFORT LEVEL
1%	SLIGHTLY LESS COMFORTABLE
0%	MUCH LESS COMFORTABLE

Are you planning to switch to third-party model portfolios in light of COVID-19?

(Advisors asked to check all that apply, top responses shown here)

83% Not planning to make any changes

16% Planning to continue building custom portfolios, but will evaluate third party model portfolios and/or managers

Whether using third-party models or portfolios built in-house, advisors need a firm grasp on their clients' investments

As shown in advisors' responses, there are costs and benefits to both third-party models and building portfolios in-house. One thing they now have in common, though, is that COVID-19 and events like it will be considered when advisors weigh the pros and cons of each option.

COVID-19 has stoked advisors' desire and need to have a firm grasp on their clients' portfolios. To a greater degree than before, advisors should approach the in-house-or-outsource question with careful consideration. On one hand, managing portfolios in-house is a commitment to your clients, and COVID-19 has made that commitment even more important. On the other, while third-party models alleviate some burdens of portfolio management, they are not fully plug-and-play solutions. Advisors need to be certain that a model strategy is the right fit for their clients, and that the provider is a good match for their firm as a whole.

Survey respondents answered that, similar to the in-house-or-outsource decision, evaluating and comparing third-party model portfolios is not easy. With **YCharts**, you can evaluate third-party models and compare them head-to-head, or tailor portfolios you've built yourself to best meet client needs. For both investment management options, YCharts enables you to clearly explain the strengths, benefits and trade-offs of your investment strategy.

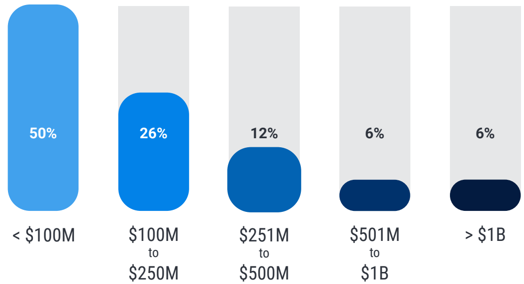
YCharts' aptly named **Model Portfolios** tool enables better portfolio analytics and management—whether you build the models yourself or they're provided by others. Advisors use YCharts Model Portfolios to educate their clients on concepts like performance, risk and diversification, win new business with customized proposals, and compare and contrast investment strategies.

If you're revisiting your portfolio strategies or building new ones, see how YCharts can elevate your practice and visit www.ycharts.com or sign up for a Free Trial of YCharts.

Respondent Demographics

319 Surveyed

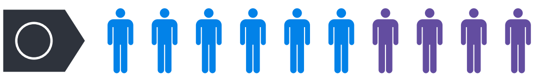
FIRM AUM



JOB TITLE

60% FINANCIAL ADVISORS

38% PORTFOLIO OR INVESTMENT MANAGER

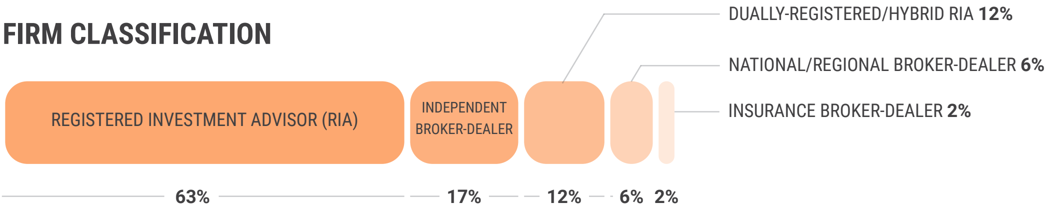


(2% OTHER)

YEARS OF EXPERIENCE

- < 5 YEARS **10%**
- 5-10 YEARS **15%**
- 11-20 YEARS **29%**
- 21-30 YEARS **25%**
- > 30 YEARS **22%**

FIRM CLASSIFICATION



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