
Advisors could lose autonomy as a result of regulation: Cerulli

By Editorial Staff Thu, Aug 3, 2017

Asking CFP, CIMA or CFA advisors to outsource portfolio construction and management to a third party is tantamount to questioning their purpose in life,' said new research from Cerulli Associates.

Many brokerage executives believe that home-office discretion will increase as underperforming advisors are identified and persuaded to use portfolios created by the headquarters consulting group, according to the latest research from Cerulli Associates.

“The DOL Conflict of Interest Rule poses risk to a firm if sponsors knowingly allow advisors to manage underperforming portfolios for clients when a better-performing portfolio with a similar risk level is available from the home office,” said Tom O’Shea, associate director at Cerulli, in a release this week.

“As firms add compliance and monitoring capabilities to their rep-as-portfolio manager (RPM) platforms, they are finding that several advisors do a poor job of steering client assets.”

More than two-thirds (68%) of advisors rely on themselves or their practice to help them with portfolio models. Only a minority of advisors look outside their practice for input. Advisors typically look for ideas from their own advisor team rather than a home-office or a third-party strategist.

“Many advisors are emotionally invested in managing their clients’ portfolios and will resist their firms’ coaxing to use third-party models,” said O’Shea. “They have worked hard to acquire certifications such as the CIMA, CFA, or CFP designations. Asking them to outsource portfolio construction and management to a third party is tantamount to questioning their purpose in life.”

Cerulli believes that if managed account firms want to increase outsourcing, they need to introduce it as a compelling alternative for growing an advisory practice. These findings are from the August 2017 issue of The Cerulli Edge - U.S. Edition, which explores how practice management programs, outsourcing portfolio construction, and a value proposition help advisors become more productive.

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