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Most advisory firms not qualified to rely on their own research: Cerulli

By Editorial Staff *Fri, Oct 18, 2019*

The research firm identifies the internal resources that advisory firms need to be what Cerulli calls 'optimal non-users' of model portfolios.

While more than six in 10 advisers and 55% of all advisory practices rely on their own investment research and portfolio construction, only about 7% of those practices are at an optimal scale to do so, according to new research from Cerulli Associates.

The research, published in the 4Q 2019 issue of The Cerulli Edge—U.S. Advisor Edition, further reveals that these practices, otherwise referred to as Optimal Non-Users (i.e., non-users of prepackaged models), have similar structures, staff, and services.

Baseline criteria to be considered an Optimal Non-User of centralized models is a team-based environment, staffed appropriately with layers of stakeholders and asset-gatherers supported by the resources needed to customize portfolios, retain existing relationships, attract new clients, and build rapport with families' beneficiaries and outside advisors.

Cerulli finds that firms with an average account size of $2 million and greater, and a minimum AUM floor of $250 million are candidates for the Optimal Non-User segment, but the practices that can genuinely customize portfolios skew closer to the $500 million range. Optimal Non-Users are exponentially more likely to reside within the wirehouse, hybrid registered investment advisor (RIA), and independent RIA channels.

Lastly, because of their scale, these practices value different offerings from distribution teams. They place greater value on competitive product information and commentary from portfolio managers compared with other topics, including client educational content, interactive tools, and practice management programs, that smaller practices crave most.

"Of all Optimal Non-User practice types, wealth managers are the most likely practice type to exhibit the defining characteristics," said Donnie Ethier, director of wealth management at Cerulli, in a press release. "Not only do they offer the most advanced planning options, but they are also led by the industry's most experienced and educated advisors, resulting in leadership that focuses on developing business scale.

"Third parties should evaluate their target practices to segment opportunities and design distribution strategies if they hope to engage these teams," Ethier added. "Segmentation can also help wealth management executives evaluate their own teams and better assess which may be adequately prepared to work outside of home-office resources if they insist."