

Pace of portfolio construction outsourcing will slow: Cerulli

By Editorial Staff Sat, Oct 10, 2020

In times of uncertainty, more advisers prefer to retain control over investment decisions rather than follow outsourced or company-mandated portfolio adjustments, the research firm said in a new report.

As advisers seek to re-assert control over client portfolios in times of market volatility, the growing trend of advisers outsourcing portfolio construction is likely to slow in the short term, according to the latest [**Cerulli Edge—U.S. Advisor Edition**](#).

Many advisers outsource portfolio construction to scale their businesses. During the past five years, the percentage of “in-sourcers” (advisers who either construct an individual portfolio for each client or construct models at their practice and then make changes on a client-by-client basis), has fallen by an estimated seven percent.

In some channels, such as national and regional broker/dealers (B/Ds) and independent registered investment advisers (RIAs), the percentage of in-sourcers has fallen by 20% and 18%, respectively. “Outsourcing can deliver better, more consistent investment outcomes for clients of these practices,” said Matt Belnap, senior analyst at Cerulli, in a release.

But the pandemic may interrupt the shift toward outsourcing. According to Cerulli research, nearly two-thirds (62%) of respondents indicate no meaningful change in advisor discretion post-pandemic, while a significant minority (29%) report that advisers are seeking greater discretion over client accounts. Only 9% indicate that advisers were more willing to outsource a few months into the pandemic.

In times of market uncertainty, advisers seek to retain control of investment decisions. “It’s easier for the advisor to make portfolio changes, and show the client that they are doing something, than to explain why the home office or model provider is taking a ‘wait and see’ approach and that the advisor has limited ability to alter the portfolio in times of crisis,” Belnap said.

Over the long term, however, Cerulli expects outsourcing to continue, and that advisers and clients can benefit from this trend. “Constructing practice-level portfolios, or a personalized portfolio for each client, takes massive amounts of time for activities such as investment research and manager due diligence. Advisers who can move beyond portfolio construction and security selection as their main value proposition can use this time to grow and scale their practice, more efficiently servicing clients they already have, and attracting new

ones,” the release said.

Product decisions will increasingly be made outside of the practice, Cerulli believes. According to the release, “In light of this trend, firms should allocate their resources and distribution focus accordingly.”

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