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NavigatorInsights

Collaboration — the New Model for High-Net-Worth Investors?

Portfolio Construction Evolved

If you're seeking to grow your high-net-worth client base, I'd like to propose a new framework for the portfolio construction process: co-creation or collaborative portfolio construction. As we embark on a post-DOL reality, this model may be the most appropriate way to ensure that investment strategies are truly in the client's best interest and fully support their long-term goals. The rise of outcome-oriented planning requires a comprehensive and holistic model for helping clients succeed. A collaborative and shared construction process brings together multiple perspectives and areas of expertise and can help advisors shield themselves from commoditization and compressed margins.

Let's take a look at the key players involved in a collaborative portfolio construction process:

The Client: The client should be at the center of every investment decision. Almost half of consumers today want involvement in shaping the products and services they consume, and investments are no different. In fact, 48% of all investors are validators and have done the majority of their homework before even stepping into an advisors office.[1] As such, they don't want you to just do it for them; they want to be an actively involved in their own destiny. We've written about this transformation — and the need for personalized portfolios in a previous *Navigator Insights*.

Financial Advisor: The financial advisor understands the client most deeply and is keenly focused on their hopes and dreams as well as their strengths and weaknesses. The advisor understands the client's emotional reactions to risk and return and can best recommend the right path forward and direct the path over time. The financial advisor also manages the relationship with the network of specialized financial firms such as asset managers, insurers, and tax and estate professionals, helping to deliver a cohesive and personalized plan while also keeping it in balance over time.

Investment Manager: In the past, the investment manager would simply take a few facts and figures from the financial advisor and recommend products with the best performance. In the high-net-worth space, investment managers should, and can, add much more value. But it takes more than a risk tolerance form or proposal request. When an advisor actively involves investment managers in the planning process via a case design process, the client can better understand the powerful resources at the advisor's disposal. This is especially true for independent financial advisors. While they may be working alone or in small teams, they have access to a robust network of thought leadership and investment expertise and are not beholden to a single firm or investment perspective.

Collaborative portfolio construction is facilitated by a case design process, which is typically a phone appointment or in-person meeting where each party takes the time to ask questions, listen, and ultimately a portfolio custom-tailored to the client's needs is built. Why is this process so important for independent financial advisors who are seeking to grow their high-net-worth business?

1. The client is actively involved in building their own future, and involving them shows them you care. Often the little things — circumstances that would never typically reach the investment manager's desk — are the most important, and they come up in the co-creation phase.

2. It sets proper expectations: Every party understands their responsibility in the partnership. The case design meeting is the appropriate time to lay out expectations and responsibilities. We use this piece to explain the relationship between client, advisor and investment managers.

3. It forces the client, advisor and investment manager to communicate in ways that everyone can understand. Clients today are doing their homework and they expect to be actively involved in the decision-making process, but they may not be equipped with the jargon we use. Collaboration demands that all parties speak clearly using understandable terminology.

As we move from a passive population, dependent on income from defined benefit and pension plans, to a population that self-funded their defined contribution plans through 401(k)s, increasingly clients are used to being actively involved in their own investments. At the iShares conference last year, BlackRock coined the phrase *"The Age of the Investor"* to describe the future. A collaborative approach can help set you apart from the competition and help you develop more meaningful relationships with your clients.

1. Cerulli Quantitative Update. "Retail Investor Product Use 2013: Impact of Change in Investor Risk Appetite."

Author: Patty Quinn McAuley

Patty Quinn McAuley, CFP®, is the Director of Marketing for Clark Capital Management Group. On the blog, she writes about helping clients achieve successful investment outcomes and about communicating effectively with clients.