



Measuring the Return on  
Technology Investment:

# Total Rebalance Expert®

WHITE PAPER

Update

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# Executive Summary

Investment advisors need technology to grow and better manage their practices. However, many advisors are reluctant to take on new technology due to the cost and time involved as well as the uncertainty of future benefits. Even if an advisor is willing to consider new technology, the quantity of tools and solutions offered can cause decision-making to be difficult and, seemingly, not worth the effort.

For the majority of investment advisors, rebalancing is the most time-consuming and error-prone part of the business. It is repetitive and requires consideration of multiple variables at once. When time is precious, why haven't advisors jumped to automate rebalancing? The answer may be simple: cost and complexity.

Total Rebalance Expert® has sought to solve the rebalancing dilemma for advisors. Total Rebalance Expert is the most tax efficient and easy to use auto-rebalancing software, designed by an industry leading CPA advisor for advisors to simplify portfolio management. This White Paper attempts to quantify and illustrate the benefits, relative to cost, of utilizing Total Rebalance Expert.

This study was based on a survey of and interviews with current users of Total Rebalance Expert.

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# Measuring the Return on Technology of Total Rebalance Expert ®

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## Introduction

To determine the return on technology investment (ROTI) on any software presents a challenge. Neither the costs nor the benefits can be readily calculated.

Costs of purchasing, installing and implementing technology may seem easily quantifiable; however, there are many “soft” costs that should also be considered. Costs of technology may include:

- Software purchase price or license fee
- Hardware purchase, replacement or upgrades
- Installation fee
- Training fee
- Support fee
- Personnel time (principals, employees, outside contractors)
- Administrative costs

As difficult as it may be to quantify the costs of technology, measuring value cannot always be based on monetary units. Benefits of technology may include:

- Decreased personnel time (principals, employees, outside contractors)
- Decreased errors
- Greater quality control and consistency
- Greater responsiveness to client needs, market changes
- Greater tax efficiency
- Increased client satisfaction
- Increased assets under management and revenue

Through a detailed survey and interviews with a random sample of over 20 users, we will attempt to quantify the ROTI of Total Rebalance Expert.

## Portfolio Management Challenges

Many investment advisors seek to achieve clients' risk/return goals through asset allocation. However, an initial allocation is not all it takes: To maintain consistent risk/return parameters, periodic rebalancing is necessary.

Regular rebalancing can enable the portfolio to capture increased returns (buying low and selling high) while reducing exposure to excess risk (i.e. volatility) and possibly avoiding diminished long-term returns (as a result of increased volatility). Unfortunately, most advisors attempt rebalancing using only rudimentary spreadsheets and hand calculations.

When rebalancing by hand, advisors are limited by capacity. The advisor must choose between increased complexity and time-consuming calculations, rebalancing less frequently or even simplifying the calculations (for example, by ignoring tax saving strategies). Most advisors rebalance on a periodic cycle, typically one to four times per year. Advisors may also rebalance when a client need arises, such as a significant cash withdrawal or contribution.

Advisors generally harvest tax losses annually, at the end of each year.

If capacity were not an issue, rebalancing would consider all of the following parameters:

- Minimizing transaction costs
- Avoiding redemption fees
- Minimizing gain recognition
- Avoiding short term capital gains
- Avoiding wash sales
- Location optimization (household level rebalancing) <sup>1</sup>

With all of these factors to consider when rebalancing, it is difficult for an advisor to make consistent decisions client by client and time after time. More so, it is difficult to enforce consistency among multiple advisors in a firm. Written policies and procedures may be helpful; however, they cannot guarantee against human errors and inconsistent judgment calls.

Finally, since most advisors wish to grow their practices, spending more time on rebalancing could significantly impact capacity. With a shortage of talent and a glut of commission-generating brokers competing for clients, would an independent advisor truly be serving the "greater good" if increasing management quality meant decreasing ability to take on more clients?

Manual rebalancing is virtually impossible when considering transaction costs, redemption fees, gain minimization, short term gain avoidance, wash sales, cash needs and location optimization in addition to maintaining consistent management. Automated portfolio management utilizing Total Rebalance Expert has shown to solve this challenge.

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<sup>1</sup>A client with several accounts, including taxable, non-taxable and/or tax-deferred accounts, can benefit from location optimization strategies. For example, rather than hold ordinary income producing bonds in a taxable account (or possibly settling for diminished returns from municipal bonds), bonds can be held in an IRA (which will ultimately be taxed at ordinary rates). Likewise, rather than hold appreciating securities in an IRA (which will ultimately be taxed at ordinary rates), equities held in a taxable account may be subject to advantageous capital gains rates. Coordinating location decisions along with rebalancing transactions can be quite cumbersome, but the results have the potential for significant tax benefits.

## Addressing the Challenges with Total Rebalance Expert

Total Rebalance Expert provides an automated solution for the rebalancing process, effectively dealing with multiple variables in a consistent and timely manner. Total Rebalance Expert provides the following functionality for rebalancing:

- Our patented Analysis Expert<sup>2</sup> to quickly identify which clients require transactions
- Minimization of number of trades (to minimize transaction costs)
- Short term gain avoidance
- Minimization of realized gain
- Redemption fees avoidance
- Wash sales avoidance
- Location optimization

Total Rebalance Expert also automates processes for:

- Tax loss harvesting
- Cash management
- Capital gain distribution avoidance

To customize the software to each advisor's specific strategy, Total Rebalance Expert allows customization in the following parameters:

- Tolerance ranges at the class and subclass levels, either globally or by model
- Ordinary and capital gains rates, globally and by client exception
- Minimum cash and cash set-asides
- Minimum trade amounts, percentage, dollar amount, lesser or greater
- Tax loss harvesting minimum loss percentage and dollar requirements
- Transaction costs maximums
- Preferred buys, with alternates allowed for type of account (taxable, IRA, Roth), custodian or client sets
- Margin accounts
- Legacy positions
- Location optimization
- Outside accounts and restricted accounts, such as 401(k)s

Total Rebalance Expert also produces client-ready reports including quantified savings from tax-efficient rebalancing.

Inspired by the needs of her own advisory firm, Chief Executive Officer Sheryl Rowling wanted Total Rebalance Expert to address the specific needs of registered investment advisors. With a background as a financial advisor and certified public accountant, Rowling was careful to integrate high-level tax functionality in the program.

Co-creator and Chief Information Officer, Cheryl Lurtz, is the programming mastermind behind Total Rebalance Expert. With over 30 years of experience designing applications, Lurtz was motivated to create a solution for advisors that would provide the perfect blend of functionality and ease of use. According to Lurtz, "I view my job as learning the processes advisors go through to recognize and resolve portfolio management issues involving model compliance, cash management and tax loss harvesting opportunities. My goal is to automate and improve on the manual tasks in a way that is practical, user-friendly and supports consistent transactions."

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<sup>2</sup> Patent No.: US 8,321,320

## Quantifying the Costs and Benefits of Total Rebalance Expert

To validate and quantify the benefits of Total Rebalance Expert, a sample of users were surveyed and asked a series of questions about the cost savings and increased revenue made possible by this software. These questions were designed to understand a broad range of economic and non-economic benefits including:

- Reduction of personnel hours
- Reduction of errors
- Greater quality control and consistency
- Greater responsiveness to client needs, market changes
- Greater tax efficiency
- Increased client satisfaction
- Increased client base and revenue

Non-economic benefits cannot be quantified in terms of monetary units. In spite of the inability to quantify, these benefits can be quite substantial. Users cited increased compliance with clients' investment policy statements, more timely transactions for all clients when reacting to market movements, reduction in errors, increased client satisfaction and better preparation for an eventual S.E.C. audit.

According to Dave O'Brien of O'Brien Financial Planning, "Of our software suite, the one application that has had the biggest impact on our approach has been TRX." O'Brien added, "As a result, we're handily bringing in assets ... and it is a true delighter for clients to know that we are acting in a fiduciary capacity in lowering their costs."

To quantify "payback" and ROTI, it is necessary to quantify both the costs and the benefits of Total Rebalance Expert. The dollar costs of Total Rebalance Expert include the training fee and the annual license fee. The training fee is typically \$3,000. The annual license fee, prior to discounts, starts at approximately \$10,000 with incremental increases for firms with AUM of over \$200 million. Small firm pricing, before discounts, starts at \$5,000. Preparation, installation and training typically require a total of forty hours of an associate's time. At an assumed rate of \$80 per hour, the labor cost associated with implementation of Total Rebalance Expert is estimated at \$3,000. Thus, the initial year costs average approximately \$16,000 and the ongoing annual cost averages \$10,000.

To quantify economic benefits of Total Rebalance Expert, we must look at personnel hours saved as well as new business revenues generated. Based on a sampling of users, annual advisor hours saved averaged 250 hours per year. However, these estimates may be understated since advisors attempted to quantify only the time saved in calculating and submitting transactions. How much time is spent by the average firm simply identifying which portfolios require transactions due to cash issues or allocations outside of tolerance ranges? This "preliminary" identification procedure may add a significant time burden on firms without access to Total Rebalance Expert's "Analysis Expert" screen.

According to Ryan Callan, Chief Operating Officer of Callan Capital, one of Financial Advisor magazine's Top 50-Fastest Growing Firms, "At this point [TRX] is indispensable. I'm able to come in and take a quick look at our households and see what needs to be done. It takes about five minutes."

Assuming a conservative average of 250 annual advisor hours saved and an average professional rate of \$250 per hour, annual labor savings are approximately \$62,500. Based on survey results, the average new AUM potential provided by Total Rebalance Expert was estimated at approximately \$70 million. Assuming an average advisory fee of 0.75 percent, the annual increased revenue generated could be \$525,000. Thus, the total average annual savings from Total Rebalance Expert is approximately \$587,500.

Based on the above, the three-year ROTI is over 46 times the cost of the software! <sup>3</sup>

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<sup>3</sup> See Table 1

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Table 1

Three-Year ROTI of Total Rebalance Expert: 41 Times	
NPV of 3-Year Benefit	\$1,570,000
NPV of 3-Year Investment	(\$34,000)
NPV of 3-Year Benefit minus Investment	\$1,536,000
Annual Benefit	\$587,500
Initial Year/Subsequent Years' Investment	\$16,000/\$10,000
Discount Rate	6%

For purposes of these calculations:

Discount Rate: A factor of 6% is used to determine present value in today's dollars.

Initial Year /Subsequent Years' Investment: Initial year investment is the total of the average training fee of \$3,000, average labor of \$3,000, and the average undiscounted license fee of \$10,000. Subsequent years' investment is the average license fee of \$10,000. All amounts are paid at the beginning of each year. It should be noted that these amounts are higher than the prior survey because the size of the average TRX client is larger.

Annual Benefit: The annual benefit is the value of labor costs saved plus additional AUM revenues generated.

NPV of 3-Year Investment: The net present value of the 3-year investment is the cost of Total Rebalance Expert incurred over three years discounted at 6%.

NPV of 3-Year Benefit: The net present value of the 3-year benefit is the annual benefits produced by Total Rebalance Expert over three years discounted at 6%.

NPV of 3-Year Benefit minus Investment: The net present value of the 3-year benefit minus investment is the annual net benefits produced by Total Rebalance Expert in excess of the cost of Total Rebalance Expert over three years discounted at 6%.

Three-Year ROTI of Total Rebalance Expert: The 3-year Return on Technology Investment of Total Rebalance Expert is the net present value of the net benefit divided by net cost (more specifically, the NPV of 3-Year Benefit minus Investment divided by NPV of 3-Year Investment).

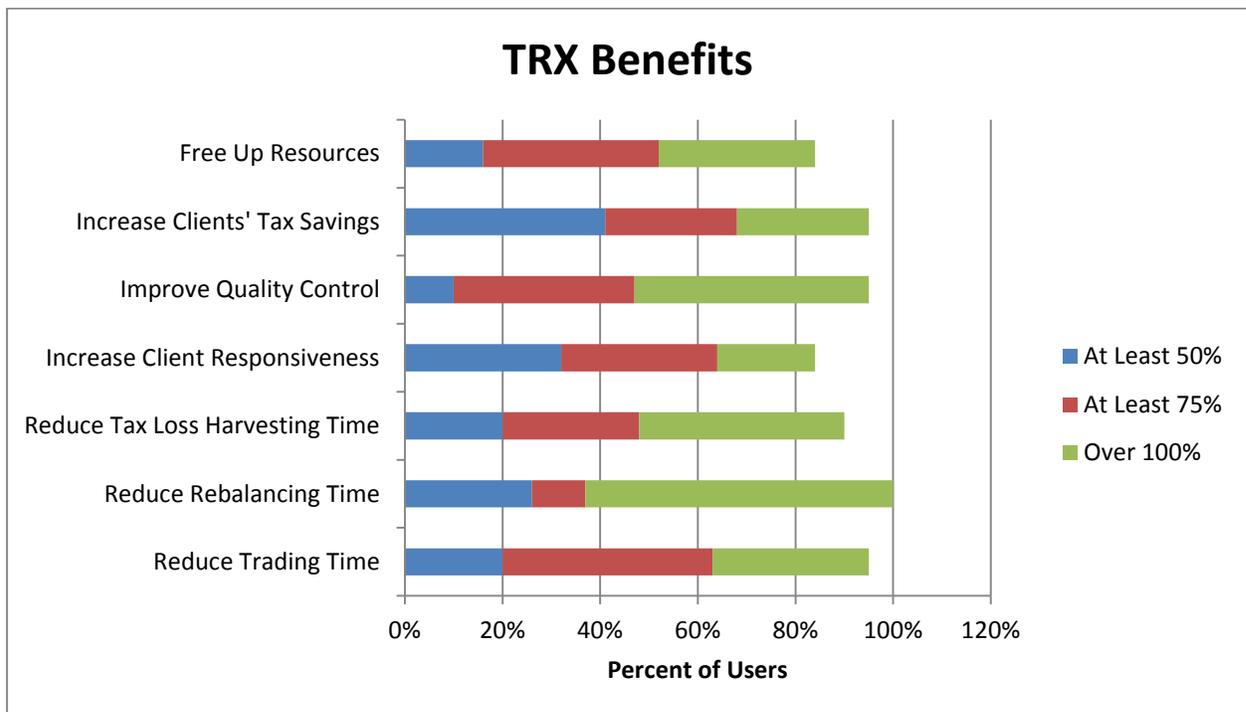
## Survey Results

### Survey Demographics

For this survey, we interviewed ten users of Total Rebalance Expert. The firms range in size from under \$50 million to \$1 billion AUM in locations from California to Florida. Each of these firms is a registered investment advisor.<sup>4</sup>

Chart 1 below shows that 85 to 100% of TRX users found efficiency improvements of 50% to over 100% in the areas of freeing up resources, increasing client tax savings, improving quality control, increasing client responsiveness, reducing tax loss harvesting time, reducing rebalancing time and reducing trading time.

Chart 1



<sup>4</sup>It should be noted that there were no significant differences in the response distributions in any of the categories discussed when respondents are segmented based on the following differentiators:

- DFA advisors/non-DFA advisors
- Large firms/small firms
- CPAs/non-CPAs
- Solo practitioners/multi-advisor firms

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Chart 2 below shows that 75% - 100% of TRX users rated individual areas of functionality as good to excellent (scores of 3 to 5) on a scale of 1 to 5...

Chart 2

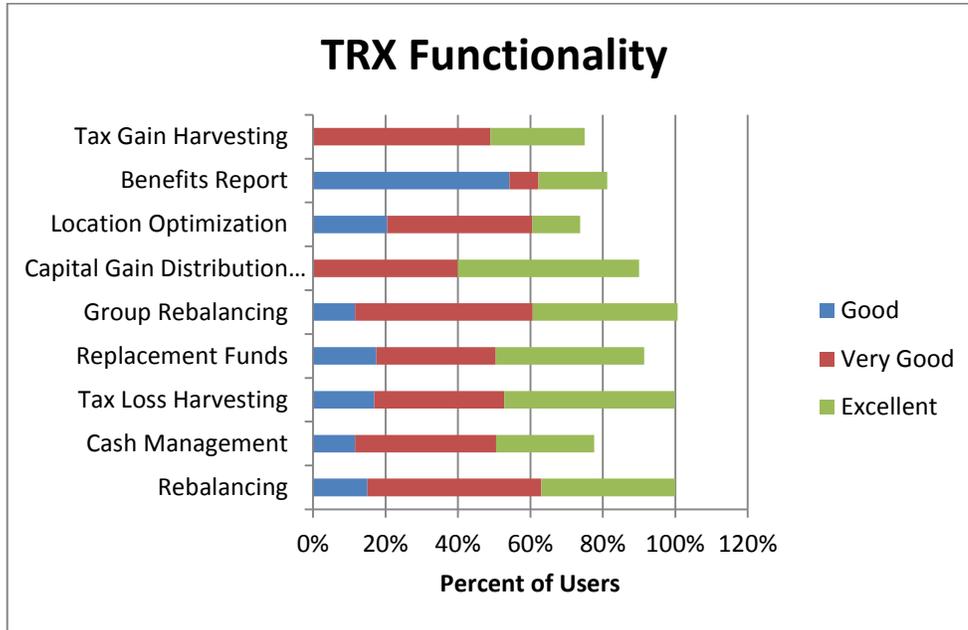
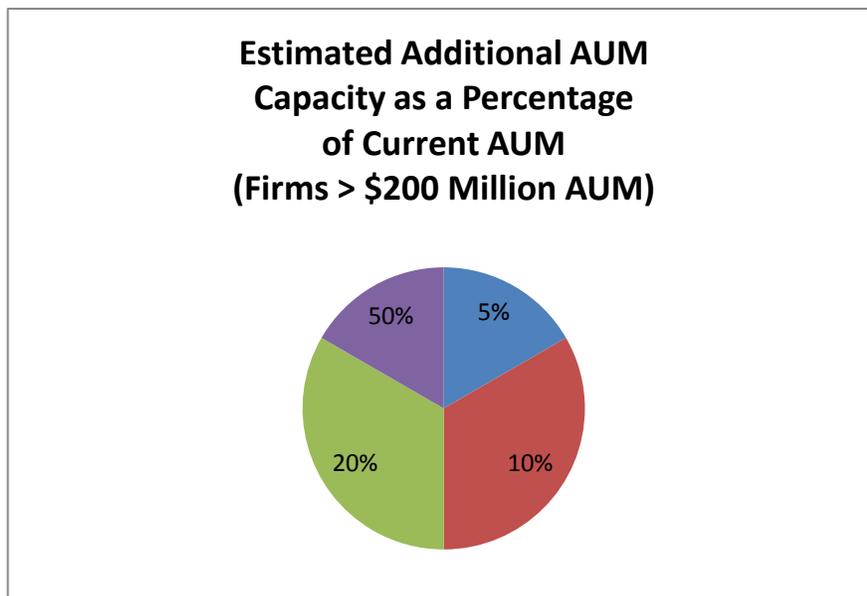


Chart 3 below shows the estimated increased capacity created by TRX, as reported by the users managing over \$200 million of assets. Over 70 % of the users believe that TRX will increase firm capacity by 20% - 50%. In fact, the average TRX firm estimates increased capacity of 25%.

Chart 3



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Finally, users commented on specific benefits experienced by their firms.

According to Bill Parsons, Managing Member of Mainsail Asset Management, TRX has helped to improve client satisfaction and bring in new clients because “clients like the fact that continuous monitoring is occurring ...and [they] specifically want this type of discipline.”

Charles Parker, of Parker Financial Advisors, agrees, stating “A prospect hired us based on knowing we are able to rebalance every day if necessary.”

Paul Carroll, of Efficient Wealth Management, says “TRX has massively improved the productivity of our practice. We’ve been able to refocus energies towards practice growth. Our asset allocation models are complex, often customized, and include advanced cash management techniques. TRX has no trouble handling our complexities. Also, we’ve been able to engage in multi-custodian household level asset allocation and rebalancing. This really is a ‘WOW’ feature.”

Ryan Callan likes to use TRX’s client benefit report, stating “Clients like to see where rebalancing is adding value. Our firm uses the client benefit report during prospect meetings to show the value we add through rebalancing tax effectively.”

Wendy Wildey, of Hearthstone Private Wealth Management stated “We were able to build such a complex trading rationale into [TRX] that the trade proposals have an integrity to our process that we can trust.”

When asked what she liked best about TRX, Elizabeth Barrett, owner and President of Sterling Wealth Advisors, said “Peace of mind. No trade errors!”

Using a unique analogy, Tim Armstrong, Wealth Coach at FirstWave Financial, commented “This is how I look at it. Imagine a little drip coming out of a faucet. That is how we were rebalancing before. With TRX, we now have a fire hose! We have to control it, but the power is amazing.”

## **Conclusion**

The data collected in this study strongly suggests that firms utilizing Total Rebalance Expert will realize substantial benefits compared to costs. Although not all benefits can be quantified in monetary units, it is clear that the quantifiable benefits of personnel time savings and greater firm capacity combined with the non-quantifiable benefits of increased client satisfaction, better quality control and high level tax saving functionality can significantly add to an advisory firm's bottom line as well as its reputation.

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