

White Paper by Sheryl Rowling, CPA/PFS,
CEO Total Rebalance Expert®



Outsource, Yet Remain in Control

**How Advisors Can Improve Profitability
and Enhance Client Service By Outsourcing
Key Aspects of Portfolio Management**



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Introduction

Outsourcing is at the forefront of advisors' consideration, as markets become more volatile, client demands increase and compliance concerns grow. However, the term "outsourcing" can have varying meanings to each advisor as well as various perceived and real implications. How can you outsource aspects of your business, yet still remain in control?

This white paper will provide a more uniform understanding of outsourcing, advisor perceptions and innovative ways leading firms are doing what they do best by outsourcing the rest. To provide a relevant example, this report will highlight the introduction of a new outsourcing service – rebalancing and portfolio management.

What is Outsourcing?

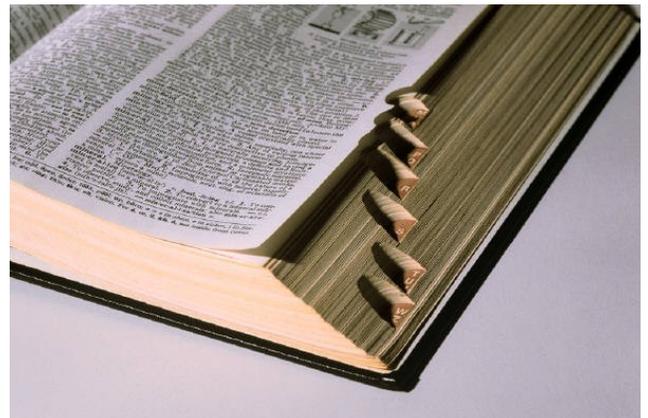
According to Merriam-Webster, outsourcing means "to procure (as some goods or services needed by a business or organization) under contract with an outside supplier <decided to *outsource* some back-office operations>."

Investopedia defines "outsourcing" as "A practice used by different companies to reduce costs by transferring portions of work to outside suppliers rather than completing it internally."

Investopedia explains the term as follows:

"Outsourcing is an effective cost-saving strategy when used properly. It is sometimes more affordable to purchase a good from companies with comparative advantages than it is to produce the good internally. An example of a manufacturing company outsourcing would be Dell buying some of its computer components from another manufacturer in order to save on production costs. Alternatively, businesses may decide to outsource book-keeping duties to independent accounting firms, as it may be cheaper than retaining an in-house accountant."

It is interesting to note that the Merriam-Webster definition describes only what outsourcing *is*; whereas, the Investopedia definition incorporates *why* (cost-saving). In the case of investment advisors, cost-saving can involve many more aspects than simply saving money. This will be addressed further in more detail.



Advisors' Perceptions of Outsourcing

Outsourcing to investment advisors can mean anything from outsourcing the entire process of client service, including investment strategy functions (such as formulating models, choosing investments and client risk tolerance determinations), back office functions (such as client reporting, downloads and reconciliations, compliance and billing) and portfolio management (such as rebalancing, cash management, and tax loss harvesting). Advisors tend to be reluctant to outsource what they believe is a core function of their service model.

"Deciding what activities are 'core' and what are 'non-core' is crucial when managing a financial advisory practice, and outsourcing the 'non-core' tasks is an obvious way of leveraging time for marketing and business development," said Cynthia Stephens, ByAllAccounts' vice-president of marketing.

According to the 2012 Investment News Technology Study, top performing firms spend twice as much on technology outsourcing than all the other firms.

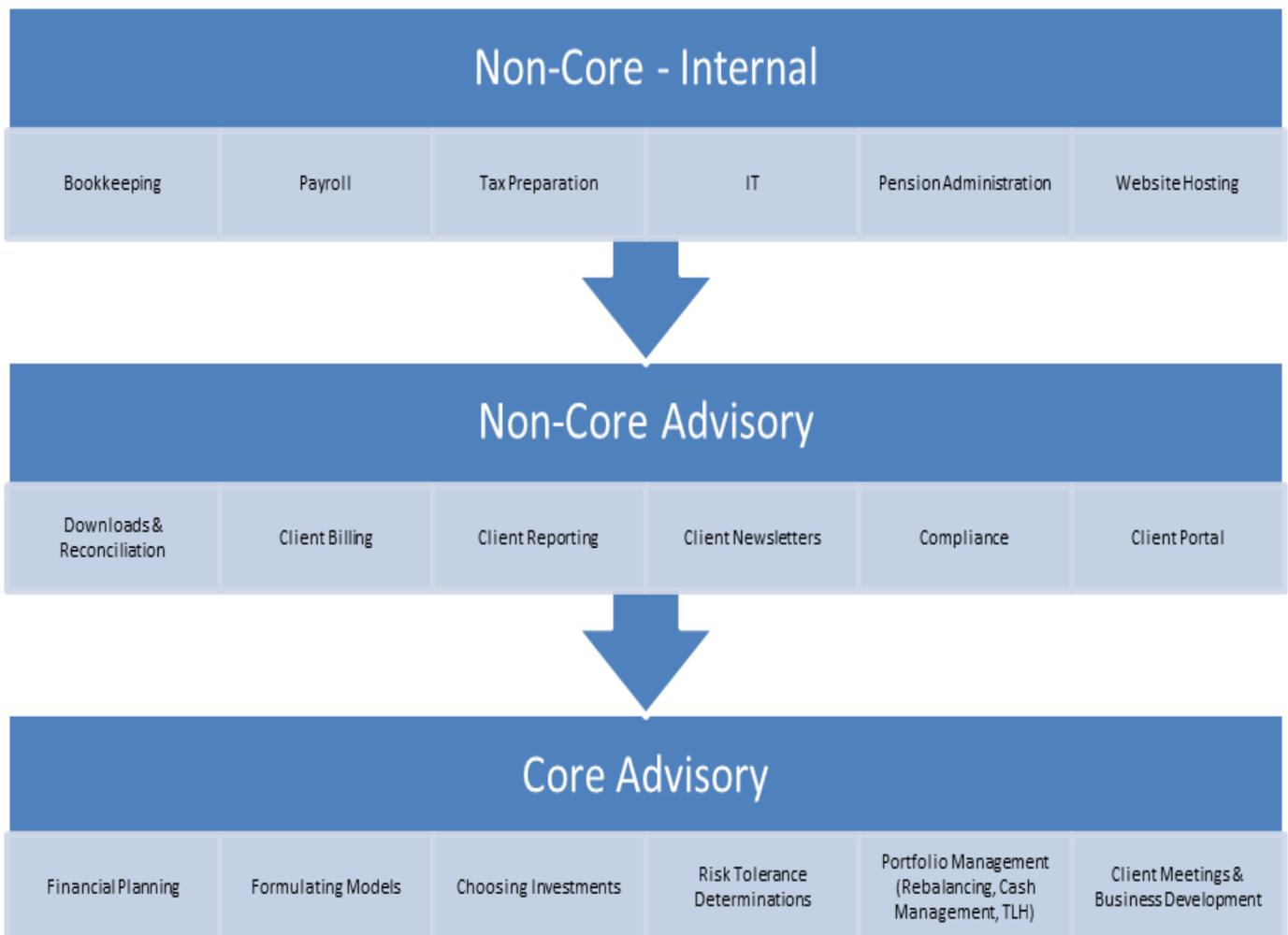
Internal chores, such as bookkeeping, payroll, tax return preparation and IT services are typically outsourced by advisors without a second thought. Since these tend not to be core competencies and do not directly impact clients, advisors are comfortable with utilizing outside providers for these functions.

"Outsourcing can benefit an advisor or firm by helping you tap into the deep expertise that other professionals have in specific areas of planning or can enable you to delegate tasks you either don't have the desire or the ability to do. Outsourcing can help a firm work much more productively by freeing up time for you and your staff so you can concentrate on working in your areas of strength to provide the greatest value to your clients."



*Deborah Fox, Founder
Fox Financial Planning Network*

The line between “core” and “non-core” varies depending on each advisor’s assessment and comfort level. Just as there is a progression from conservative to aggressive investments (money market funds, US Treasuries, ... emerging markets equities, alternatives, hedge funds), there is a progression from “less core” to “more core” in the eyes of advisors. The sequence can be shown as follows:



Perception vs. Reality

When considering outsourcing non-core or core advisory functions, advisors often hold pre-judged concerns or unrealistic expectations. These perceptions along with rebuttals include:

Outsourcing is expensive.	The costs of outsourcing always need to be compared to the potential benefits. By outsourcing responsibilities, the firm can realize monetary cost savings through lower personnel costs, less training time, decreased systems support (IT, secretarial, supplies), and increased time available for clients and marketing.
Outsourcing will decrease quality.	Outsourcing, when done right, can actually increase quality. The outsourcing firm is an expert at what they do - and that is all they do. You give the firm instructions and parameters and it is their responsibility to carry those out. You have better continuity protection since you won't be at risk for employees leaving, taking vacations or taking off sick.
Outsourcing will take away the personalized service I give my clients.	The truth is it's hard to devote the right amount of time and attention to your clients when you're bogged down with repetitive tasks. Having staff to help out is not always the best solution. That gives them less time to spend with clients and costs you extra time to supervise. Clients come to you for advice and consultations. Having more time for that will lead to happier clients and a growing practice - that you will be able to support.

Benefits of Outsourcing

The potential benefits of outsourcing include cost-savings, time savings, scale, and flexibility. Let's explore each of these.

Cost-Savings: As previously noted, cost-savings can incorporate much more than simply monetary savings. Typically, outsourcing saving is calculated as:

Cost of in-house labor - Cost of outsourcing

Further illustrating this, for example, if it takes an employee two hours per day to do downloads and reconciliations and the employee earns \$40 per hour, including benefits, then the cost of in-house labor would be approximately \$20,000 per year. If the cost of outsourcing is \$1,000 per month, then outsourcing would save approximately \$8,000 per year. This is a straightforward calculation; however, it doesn't capture all of the cost-savings.

In this illustration, outsourcing can save ¼ of an employee. Yet, it is difficult to hire an employee for 10 hours a week. The advisor might be forced to hire a part-time or full-time employee unnecessarily were it not for outsourcing. Also, there are other costs that are not considered in this simple calculation. These costs can include the cost of office space, computers, phones, and supplies as well the cost of supervision by higher-level personnel.

Thus, the cost-saving aspect of outsourcing can be much more material than a first glance would indicate.

Time Saving: *It is difficult to discuss the benefits of time savings without acknowledging the impact on profitability. As mentioned earlier, when advisors are able to free up their time, they are more available to current clients and more available to perform the aspects of their business that are uniquely theirs – developing strategies for clients, providing answers to their concerns, personally communicating more regularly and creating the vision for their firms. With happier clients and more time available, the principal, as well as higher-level personnel, can devote more effort to practice development and marketing. That means more clients, higher AUM and greater profits.*

Scale: *Outsourcing provides the ability to grow the advisor's practice without needing to hire additional employees – or requiring the principal to give up more sleep! Advisors feel time crunch every day and typically take on more work as their business grows. Hiring more staff helps, but means more supervision and training. And – it might not be what the clients want. They still want to talk to their advisor. At the point when the principal simply cannot work additional hours, the firm cannot take on more clients. That is a position that most advisors do not want.*

Having a well-oiled machine where experts are handling repetitive tasks, allowing the principal and employees to focus on client relationships, along with the ability to incrementally add outside services as needs allow the firm to scale its own resources and grow profitably.

Flexibility: *Outsourcing provides a high level of flexibility that cannot be matched using only internal resources. Outsourcing can make it easier to work outside of the office, provide needed information quickly, and provide fulfill needs that vary over time. According to the 2011 Schwab RIA Benchmarking Study, principals at the most successful advisory firms spend 75 percent of their time on new business development. Outsourcing provides the means to free up a principal's time. Northern Trust's survey in "Investment Management Outsourcing: The State of the Art in 2012" finds that advisors who outsourced cited the increase in time available as the single factor that most positively impacted their business.*

Outsourcing Rebalancing and Portfolio Management

The Concept

Although some advisors are comfortable with a TAMP (Turnkey Asset Management Program), many advisors want to make their own decisions on asset allocations, investment choices, rebalancing parameters and tax savings strategies. Automation can assist with repetitive, calculation-heavy rebalancing and there are several software solutions available for this (including TRX). Automated rebalancing can provide many advantages:

- **Immediately identify accounts requiring action**
- **Shorten rebalancing time from days or weeks to hours**
- **Produce more consistent, optimal trades**
- **Integrate tax management and location optimization**
- **Instantly generate cash or invests added funds**
- **Quickly process tax loss harvesting, considering wash sales**
- **Quantify tax savings to clients.**

With a complete rebalancing solution, the advisor can set portfolio management preferences according to his or her own strategic decisions.

Clearly, automated rebalancing and tax loss harvesting can save time and produce more consistent, optimal transactions. This can certainly free up time for advisors. However, there is still a learning curve and time required to monitor portfolios, review proposed trades, and update the software (for new clients, model or investment changes, cash requirements, etc.) If delegated to an employee, there is exposure to them leaving, taking vacation, or having an extended illness. The same is true when a new employee is hired to do rebalancing or when the job is assigned to someone else.

The ability to outsource rebalancing and portfolio management opens a new frontier of freedom for advisors.

TRX Office

TRX recently announced the availability of TRX Office, a new outsourced portfolio management and rebalancing service. TRX Office provides an expert, comprehensive outsourced management solution for rebalancing and portfolio management utilizing TRX rebalancing technology, supervised by CPA and financial professionals.

TRX Office provides an ongoing review of client accounts and trade calculations for required rebalancing, dollar cost averaging, cash management needs and tax loss harvesting opportunities. In addition, TRX Office will review client accounts and calculate trades as requested for capital gain distribution avoidance, cash withdrawals or fund replacement needs. Operationally, TRX Office will streamline the execution process by automatically creating trading proposals for advisor approval through a one-click process that automatically creates trade files for uploading to the advisor's custodian(s).

TRX Office utilizes the core TRX rebalancing technology platform and integrates it with experienced CPAs and RIAs to manage that process, saving advisors valuable time, while increasing the scale, accuracy and efficiency of their portfolio management process.

"Advisors have been so impressed and confident with TRX that they requested we build in new capabilities so that they can completely outsource the process. Based on this client demand, we have integrated the tax and investment planning expertise of Rowling and Associates, an award-winning CPA Wealth Management firm, to provide that outsourced, operational component."



*Sheryl Rowling, CEO
Total Rebalance Expert*

"Outsourcing rebalancing to experts gives me the ability to expand the business, do a better job for my current clients and ultimately have more free time as opposed to having to constantly deal with random events that come from both the markets as well as in-house employees. Additionally, going through our recent audit showed the SEC that I have a process in place and they were very happy with the consistency that TRX provides."

*Steve Berman
Berman Advisors*

For more information about
TRX Office,
go to www.trxpert.com
or call (619) 294-4879



About the author:

Sheryl L. Rowling, CPA/PFS, co-creator and CEO of Total Rebalance Expert® portfolio management software, is also the Principal of Rowling & Associates. She has been providing fee-only tax and financial planning advice since 1979. Sheryl has been named one of the nation's top 250 financial advisors by Worth magazine and one of the country's most influential CPAs by CPA Magazine. She has also received recognition as one of Accounting Today's 100 Most Influential People and as a 5-Star Wealth Manager by San Diego Magazine. She is a member of the American Institute of Certified Public Accountants, the California Society of Certified Public Accountants, the National Association of Personal Financial Advisors and the All-Star Financial Group. Sheryl holds an M.B.A. in Finance and a B.S. in Accounting from San Diego State University. Sheryl can be reached at sheryl@trxpert.com.