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Tech Vendor Paves Path for SMAs in Robo Portfolios

By Danielle Verbrigghe October 18, 2016

Broker-dealers, banks and registered investment advisors (RIAs) are continuing to adopt "robo-advisor," or automated digital advice platforms, to sit alongside their main investment advisory programs. As firms seek to differentiate their robo-offerings and justify higher pricing, they may also seek to offer more sophisticated portfolios, beyond the out-of-the-box exchange-traded fund (ETF) models touted by many of the initial providers, consultants say.

Targeting that development, investment advisory technology vendor **Vestmark** today announced the launch of a new "robo-solution," designed to let broker-dealer, bank or other clients offer an automated advice program incorporating their own investment picks, including separately managed accounts (SMAs), mutual funds and ETFs.

While an array of robo-advisory firms, asset managers, third party investment advisory platforms and other vendors have already built robo-advisory offerings, most have so-far focused on offering, or enabling wealth management clients to offer, simple portfolios of ETFs. Vestmark's new program allows firms to potentially build robo-advice programs that incorporate more complex investment portfolios and pulling from a wider set of products, according to **Rob Klapprodt**, president of Vestmark.

“We're talking to a lot of current clients as well as prospects that want to broaden the availability of their advice offerings and make digital tools, digital offerings directly available to the end investor,” Klapprodt says. “There is some recognition that a basket of ETF securities is not going to best meet the needs of every investor out there, every investment objective a client might have.”

Vestmark's offering, which features a new client-directed portal, also lets firms decide how much of the account management process to automate versus assigning to a human advisor. The system is designed to connect with firms' existing middle- and back-office infrastructure, and existing lineups of advisory programs, to allow firms to eliminate inconsistencies between their regular investment advisory programs and their robo-offering, Klapprodt says.

“If you think about what's coming with the DOL rule, come April 10 once it's in effect, it seems like firms could be facing a dilemma if they have a robo program that's a bolt-on they're using with someone else,” Klapprodt says. “That bolt-on is going to have their own set of capital market assumptions, own set of asset allocation targets its own set of ETF products in it. There's guaranteed to be some inconsistencies between what's in the robo solution and what the firms are offering directly to their clients in their other advisory programs.”

Offering more complex products in a robo-wrapper could be a way for wirehouses or other high-end wealth management firms to differentiate their offering and charge a higher basis point fee, says Alois Pirker, research director of Aite Group's wealth management practice.

“If you offer better products, if you offer more complex products, you can ask for a higher basis point fee from the consumer,” Pirker says.

“It totally makes sense for the big firms, mostly high-net-worth firms to not race to the bottom on the pricing scale, but rather find a balance between product capabilities that can still be scaled, leverage in-house research that they have available already and direct-delivery to the consumer that allows for a self-service model.”

For example, he points to Merrill Lynch’s decision to align its robo-portfolios with its CIO office’s asset allocation models.

While initially firms are focused on developing portfolios targeting mass affluent investors, the robo approach could eventually be integrated more broadly and adapted for higher net-worth investors, Pirker says. At that point it would make sense to incorporate more complex investment products within the portfolios.

But firms will also proceed carefully for “fear of going too high too quick and possibly cannibalizing a core business,” Pirker says.

“In that introduction with their core client segment, you would want to make sure you’re careful enough to place it as an added value and not [a replacement for] the advisor,” Pirker says.

Klapprodt says that offering more complex investment portfolios through a robo-advisory framework, could still allow firms room to involve human advisors.

“Once you get some of the more complex investment options we want to make available, the likelihood of the investor wanting to ask a question of the financial advisor, or engage a bit before they click the open account button [increases],” Klapprodt says.

The introduction of self-directed robo-advisory platforms does mark a significant shift for the advice industry, says Gary Jones, principal of Jones & Jones Consulting.

“Most of this industry has always been based on some level of human interaction,” Jones says. “I think that robo obviously represents a real shift in that.”

But today’s consumers do expect an option for self-service, he says.

“The expectation of the average consumer is for some level of self-service these days, and the ability to do it yourself,” Jones says.

While firms from the tech world, like Betterment, set the gauge of offering a fully-automated approach at a low price point, that business model presents a limited value proposition, Jones says. If firms are looking to bring the robo-approach upmarket, it makes sense to focus on offering more complex or sophisticated portfolios.

But at the same time, “I think you have to be careful about disintermediating your other service models,” Jones says.