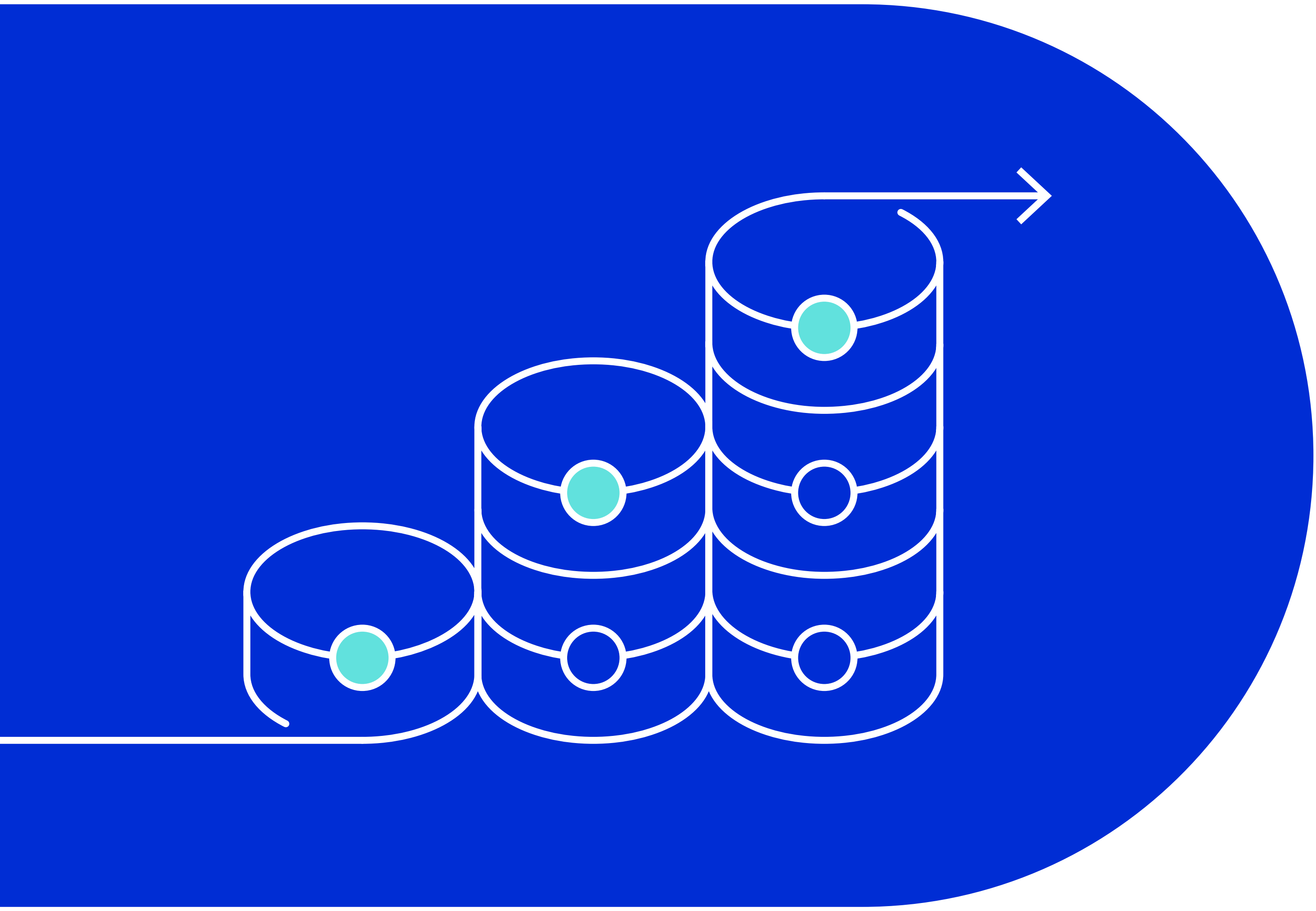
intelliflo redblack



How scalable rebalancing drives RIA revenue growth and the results wealth clients demand

Is your trading and rebalancing software scaling with your growth?

→ Introduction

Independent advisors, registered representatives, and accountants have come to rely on sophisticated software designed to help them meet their clients' changing financial needs, adapt to volatile markets and economic conditions and reduce their tax burdens.

Trading and rebalancing software is essential to reduce the time and effort of coordinating these portfolio transactions and potentially missing out on opportunities to help clients achieve their goals.

More than half of firms increased their use of digital processes and workflows in 2021.[1] Firms that had a greater adoption of digital workflows saw a 12.5% decrease in annual hours spent per client on operations. The top performing firms that leveraged standardized workflows and used digital tools spent nearly 20% less time annually per client on operations.[1]

Yet, only about 35% of advisors use trading/rebalancing, economic analysis and risk tolerance tools, and even fewer use tax planning and all-in-one programs.[2] As firms grow in size and complexity due to organic growth or mergers and acquisitions (M&As), how can they scale to meet the specific demands of new clients, advisors, and consolidated multi-custodian trading?

↓12.5%

Decrease in annual hours spent per client on operations, in firms with a greater adoption of digital workflows.
Source: Charles Schwab's 2022 RIA Benchmarking Study

By 2024, family offices are expected to grow by at least 10% and independent advisors by 14% in North America.[3] Studies show that trading and rebalancing technology becomes more prevalent as firms get larger because of the additional time, effort and errors involved in manual rebalancing in spreadsheets or inadequate tools and the need to respond quickly across increasingly diverse clients with evolving expectations.

In addition, firms that use "vanilla" trading and rebalancing applications as part of all-in-one or custodian platforms tend to quickly outgrow them as the demand for more personalization, flexibility and scale increases.

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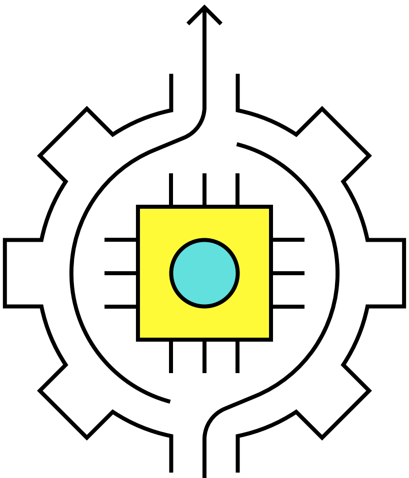


A rebalancing solution should provide aggregate data and model targets, support desired imports and ultimate output, and scale efficiently – enabling you to bring on more clients and give each the same high-quality service without the additional overhead.

→ The continued RIA growth trajectory

A 10-year bull market propelled growth at most RIAs. Continued growth is forecast across the industry, with 94% of all RIAs expecting a gain of more than 10% in 2022.[4] Established RIAs with at least $250 million AUM expect to see assets increase by 22%, and RIAs that have seen at least 50% growth since 2016 anticipate 34% year-over-year growth.[4]

M&A activity among the proliferating RIAs has been shattering records for several years, with a few firms leading the charge and some completing more than 15 transactions in a single year.[4] While 2022 is probably not going to see a quarter that rises to the Q4 2021 watermark, M&A activity among RIAs is still breaking records and on track to set another annual record despite an expected slowdown in the second half of the year.[5]

Then there's organic growth, excluding market performance, which reached its highest point in five years, driven by increases in assets from new clients and existing clients – both of which also reached five-year highs.[1]

94%

94% of all RIAs expect a growth of more than 10% in 2022 .
Source: Charles Schwab's 2022 RIA Benchmarking Study

Growing RIAs must be able to handle the near-overnight growth, consolidate trading, and transition and support new advisors quickly.

Merged firms typically have the resources to hire the best people and build the best tech stacks to drive higher operational efficiency and improved client experiences. But M&A activity can also introduce greater complexity into the business, where technology can become either an impediment or an integral part of advisor productivity, client retention, and business growth.

Firms should not underestimate the impact of additional assets, accounts, advisors and the larger universe of client constraints and preferences that enter the picture – such as cash allocations, restriction equivalents and target overrides.

→ The evolution of individualized client service

Today's clients want more transparency, reduced tax burdens, and wealth and asset preservation. More firms are offering specialized services to address ideal client needs, with 81% offering tax planning and strategy and 85% providing charitable planning.[1]

The top three main financial goals that clients discuss, manage and delegate to their wealth managers, according to a recent EY report,[3] include:

- Ensuring adequate income/financial security, 51%
- Protecting wealth (from investment loss, inflation, etc.), 49%
- Reducing taxes, including inheritance taxes, 44%

In addition, three wealth services trends drive the need to meet more complex client requirements.

The first is the growth of **alternative investments**, with one in three clients currently investing in alternatives and projections to reach 48% by 2024.[3]

68% **of wealth clients have indicated that they have sustainability goals.**
Source: 2021 EY Global Wealth Research Report

The second key element of future wealth services will be more **tailored advice**. The proportion of investors using estate planning and tax planning is expected to grow from today's 30% to 44% and 45%, respectively by 2024.[3]

And third, 68% of wealth clients have indicated that they have sustainability goals.[3] Global environmental, social and governance (ESG) assets may surpass $41 trillion by 2022 and $50 trillion by 2025, one-third of the projected total assets under management globally, according to a recent report by Bloomberg Intelligence.[6]

In addition, Millennials are poised to inherit more than $68 trillion in wealth from their boomer parents over the next decade, according to consumer researcher J.D. Power in its 2021 Full-Service Investor Satisfaction Study.[7] But just 14% of investors evaluated in J.D. Power's 2022 study said they receive comprehensive advice from their primary financial advisor based on a deep understanding of their individual needs.[8]

$68 trillion

Millennials are poised to inherit more than $68 trillion in wealth from their boomer parents over the next decade.

Trading and rebalancing technology should be on every firm's critical path to fulfilling their strategic plan to scale the business, streamline processes, and continuously create and deliver precise, personalized value to their clients.

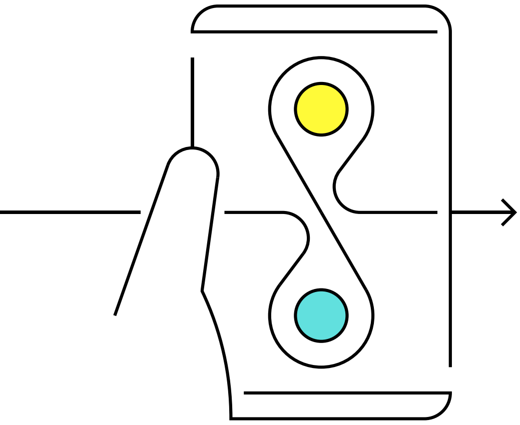
→ 9 advantages of scalable trading and rebalancing

Whether an RIA, family office or money manager, firms need to be able to differentiate, compete and grow. Rebalancing that is personalized, precise and scalable can change the game for advisors looking to grow their businesses. When trading and rebalancing is scalable, you can gain nine benefits.

1. Grow quickly

In the past five years, 21% of firms have engaged in M&A activity and 27% have had an advisor with a book of business join.[1] Firms must be able to successfully onboard advisors, transition portfolios, and scale to significant growth without missing a beat.

Advanced rebalancing and consolidated, streamlined trading are essential to supporting diverse clients, advisors and portfolio models while maintaining the ability to individually tailor portfolios and meet on-demand requests from clients across multiple segments, accounts and households.



2. Save time

Rebalancing is ineffective if done once or twice a year, or because the calendar says it's time. Opportunistic rebalancing ensures that trades are made when needed and omitted if not needed. Without software, attempting this process at any time requires days of work.

Automated rebalancing should be capable of directing trades across thousands of portfolios in minutes – making the decision to trade solely based on strategy.

3. Reduce expenses

Firms need to address the inflection point around declining operating margins using strategic, structural and tactical initiatives to reduce expenses while increasing the flexibility and scalability of the cost base. For example, workflow efficiencies gained from multi-tier modeling can allow you to trade more and manage more money, increasing your margins and growing your business while decreasing operational costs.

4. Uncover more opportunities

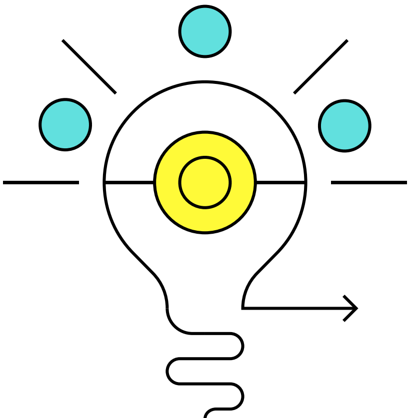
A manual or inefficient process means that when a firm gets around to rebalancing client portfolios, the markets may have shifted once again and the rebalance opportunity was lost. Automated and scalable rebalancing makes missed opportunities a thing of the past.

In addition, advanced rebalancing can open up more ESG or sustainable investment opportunities for clients. Starting with a client's investment policy statement (IPS), risk profiles and preferences, deciding on the portfolio model structure and asset allocations could be as simple as applying security restrictions and ESG preferences in the model. A rebalancing platform's model management capabilities are cruicial to making the process faster and easier.

5. Customize at scale

The ability to customize model portfolios at scale is a key requirement of top investment advisors. With the use of target overrides in the rebalancing and trading process, you can simultaneously become equally responsive to the needs of your clients, investment managers and portfolio managers.

For example, by applying and augmenting a **60/40 model** with target overrides to modify allocations to client-specific needs, you gain simplicity and scalability without losing the ability to tailor models to individual needs.



6. Reduce tax burdens

Market volatility and bear-market leanings are underscoring tax-aware rebalancing as a significant value-add, year-round opportunity for you to help your clients reduce or eliminate the client's tax consequences.

Asset location optimization, tax-loss harvesting, target overrides, capital gains budgeting, and custom thresholds on tax rules are powerful ways to meet your clients' specific tax strategies and control their annual tax burdens at the individual or household level.

7. Test scenarios

Increasingly, advisors are leveraging what-if scenarios on model allocation changes or tax-loss harvesting events. A rebalancing solution can give you the flexibility and power to test different scenarios across your entire client base or a subset of clients before following through on trades.

8. Act quickly

A centralized trading infrastructure with efficient workflows for order review sets, trade blotters, and order archives can make a huge difference in an advisor's effectiveness in taking immediate action on model drifts from anywhere in the system.

9. Future-proof the business

Fewer financial advisory firms today desire to manage technology in-house, while others face internal IT or resource constraints to support such infrastructures within their organizations. Cloud-based rebalancing tools can quickly scale to support your firm's growth for many years in terms of users, accounts, multiple custodians, and complex investment strategies.

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→ How Signet Financial Management scales advanced rebalancing and client portfolio customization

Signet Financial Management knew it needed to enhance portfolio customization to meet clients' specific preferences, restrictions, and target strategies.

As the business steadily expanded across different types of clients, accounts, strategies and asset classes, its bundled rebalancing tool could not keep up with the increased complexity and shifting client demands. In addition, hosting and managing software on-premises became expensive and time-consuming to support growth.

With householding becoming an essential requirement, Signet needed to be able to trade accounts as one account, perform tax-loss harvesting en masse, and distribute all assets to deliver clients trading and tax efficiencies.

Customizing portfolios at scale

In 2016, Signet implemented intelliflo redblack for rebalancing, trading, and order management to customize portfolios at scale with householding, tax-loss harvesting, and sleeve rebalancing to support tactical movements.

"Our previous solution couldn't rebalance sleeve or household accounts, which limited our ability to give clients what they needed," said Andrey Yashin, MS, CFA® and Director of Portfolio Management at Signet. "intelliflo redblack has helped tremendously with fulfilling tax strategies and scaling different types of assets across different types of accounts."

"intelliflo redblack has helped tremendously with fulfilling tax strategies and scaling different types of assets across different types of accounts."

Andrey Yashin, MS, CFA® and
Director of Portfolio Management,
Signet Financial Management

In addition, consistent growth led to the constant maintenance of hardware and connectivity across multiple offices, rising IT staff constraints, and the need to focus more on core competencies, which prompted its move to the intelliflo redblack Cloud edition in 2022.

Supporting steady growth

intelliflo redblack's multi-tier model capabilities play a critical role as Signet continues to customize portfolios and styles to clients' needs and unique circumstances across different accounts at scale.

As Signet steadily added assets, strategies and clients, migrating to intelliflo redblack Cloud offered a more reliable, simple and scalable option while reducing the total cost of ownership. As a result, Signet increased its AUM from less than $200 billion when it started using intelliflo redblack to more than $959 billion as of March 2022. “Since going live on intelliflo redblack Cloud, we’ve improved operational efficiencies, business continuity, and overall agility in a highly reliable cloud-based environment,” Steve Tuttle, Partner, Chief Investment Strategist, and Chief Compliance Officer for Signet. “As always, the intelliflo redblack team was a pleasure to work with and ensured a smooth migration.”

→ Scale and grow seamlessly

Whether you have millions or billions of dollars in AUM, our modular solution is always a perfect fit. As your needs evolve, a rebalancing solution should automatically scale to meet those needs – and allow new advisors to increase productivity and compete on a more advanced level.

Here are five game-changing trading, rebalancing and portfolio modeling capabilities to successfully onboard advisors while enabling your firm to scale to grow quickly and efficiently.

1. **Support for multiple sub-advisory firms** which helps reduce complexity while giving advisors autonomy on how they manage portfolios
2. **Target generation and tax-aware rebalancing** capabilities that bifurcate order generation and order management while allowing advisors to adhere better to client constraints
3. **The flexibility to handle different client scenarios** around models, strategies and exception management as well as one-off scenarios
4. **Rebalancing and trading that’s in sync with the client’s tax requirements**, such as target overrides, location preferences, equivalents and restrictions
5. **A multi-custodial platform** with straight-through order execution via the FIX network

Technology is integral to a firm’s client retention and business growth strategy. Your rebalancing platform should simplify the complex, ensure trading and client servicing are seamless for all users, and give advisors more time to continuously create and deliver more value to clients.

Finding the right rebalancing solution should be on every growth firm’s critical path to fulfilling their strategic plan to scale the business.

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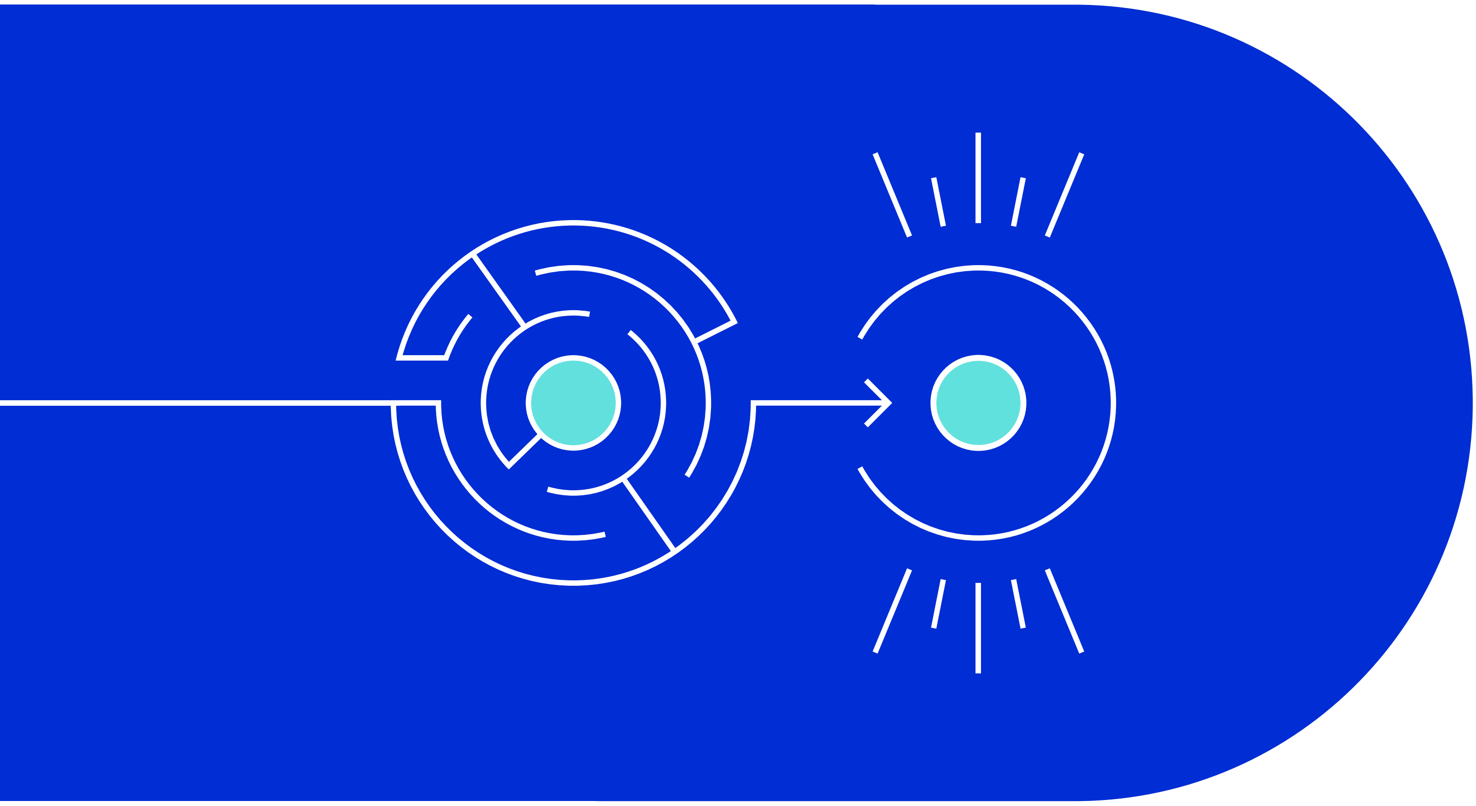
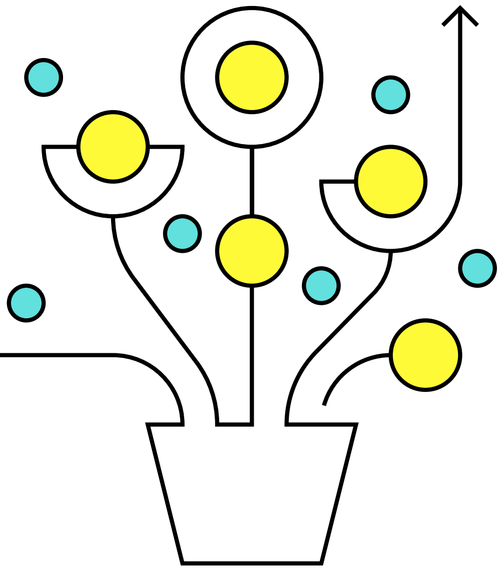


→ About intelliflo

intelliflo widens access to financial advice through leading technology powering the financial advisory experience. We use open software architectures combined with unmatched industry experience to simplify a complex digital landscape to help advisors compete and grow.

Our solutions support over 30,000 financial advisors worldwide, representing over three million end-investors, with over $1 trillion serviced across our platforms.



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