

# A Model for Spectacular Growth

Model Portfolio  
Functionality Elevates  
Money Management  
Success for All  
Types of Advisors

White Paper



**ONE ON ONE,  
JUST LIKE YOU.**

TRUST COMPANY OF AMERICA PROVIDES CUSTODY AND TECHNOLOGY SERVICES TO FEE-BASED REGISTERED INVESTMENT ADVISORS.

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## The independent advisor community currently occupies a sweet spot in the U.S. financial services industry.

As a new generation surges into retirement in the coming years and realizes responsible money management is crucial for a pleasurable existence through the final 20 to 30 years of their lives, the demand for solid financial advice will blossom. Yet a growing distaste for commission-driven wirehouse representatives is driving many of these prospects to competent independent advisors for unbiased advice.

Amid the promise, however, the potential upside has a weak spot: Those ill-equipped to handle a large influx of business will struggle to thrive amid the swelling demand.

To capitalize on the new wave of assets, advisors need an edge.

Many forward-thinking advisors have already discovered such an advantage in model portfolios, which improve operations and, in turn, elevate client relationships and business development efforts. Once seen as a tool for frequent traders and client-shy advisors, model portfolios have evolved into a valuable asset for money managers of all styles, offering:

- Simplified money management
- Streamlined trading
- Scalable back-office processes
- Sophisticated investment capabilities

Considering the technological advances in trading platforms and the expected shape of the future financial markets, model portfolio functionalities probably warrant revisiting by advisors who have long dismissed the approach.

### Based upon a classic staple for most advisors

The strategies behind model portfolios are as old as the investment advisor profession: as long as advisors and investment committees have been setting target allocations for clients, they've been implementing model portfolio philosophies.

From conservative strategies laden with fixed income mutual funds to risky approaches that lean on high beta investments, advisors have historically earned their keep by steering clients to appropriate investments that meet their short-term financial needs and long-term financial desires while allowing for their tolerance for risk.

Through time, once the most effective blend of investments was designed, the advisors turned to a third-party software program — most likely a spreadsheet application — to calculate how the investment strategy models applied to each individual account. Once the program generated necessary buys and sells, the advisor or a dedicated employee spent hours — sometimes days — executing the needed trades and reconciling every account in the book.

Reallocating and rebalancing activity followed as needed, as did regular client meetings, which ensured that the strategy remained the best approach for the client at that time.

Historically, this business model worked, but it has always had its limitations.

## A potential impediment to growth and profits

Investment strategies have traditionally proven incredibly successful for many savvy advisors. Consisting of proprietary tactics, employing complex trading methodology, and effectively marketed, an advisor's strategy can quickly strike marketplace success, drawing in millions of dollars worth of assets.

Yet as awareness of a strategy grows and it gains in popularity (and assets), inefficiencies emerge, along with the potential to bog down the practice.

On the back-office side, performance issues start to drag on processing effectiveness, as each new investment in the investment strategy requires a new account, potentially resulting in multiple accounts for a single client. Third-party tools offer some relief, but add the operational burden of data uploads and downloads, reconciliation requirements, compatibility issues, training, and maintenance. Rapid growth threatens to dull the edge of the unique trading methodology, and the potential for trading complications starts to weigh on investment decisions. To handle the issue, some advisors add headcount, which shaves profit margins.

In the field, customer service and client attention suffers as the expanding client base translates into burgeoning demands of the trading system, which must contend with multiple accounts for each new client. Advisors regularly find that growth forces a choice between managing money and working with clients, and, again, the need for full-time help creates a new set of challenges.

In short, though they offer a stable approach to helping clients achieve financial success, the limitations inherent in the traditional application of investment strategies set a hard cap on growth and profit opportunities for advisors.

## A model solution to the growth conundrum

Without careful foresight, a successful advisor may discover he or she is trapped in a Catch 22 — the strong investment performance that drives growth will falter if the firm grows too large.

To get around this significant obstacle, many advisors seek out a comprehensive solution — a tool that simplifies the application of investment strategies across a book of business. No matter how large that book becomes.

Fortunately for today's advisors, such a solution may be found in model portfolios.

Providing the framework to execute reallocations, rebalancing, and trades across an entire book of business with just a few keystrokes, model portfolios maximize back-office efficiencies while offering unmatched flexibility and scalability on the front end. All the while, the model portfolio process facilitates — and in many cases enhances — an advisor's unique trading methodologies while providing ample time, energy, and resources to address clients' account-level concerns.

In other words, model portfolios are an ideal solution for effectively managing growth rates large and small.

## Optimizing model portfolios in your practice

Leveraging technological advances that propel functionality far beyond account-level processes, today's industry-leading model portfolio functionalities allow advisors to enter trades at the model level; seamlessly execute trades and allocate shares across the book of business; and effortlessly reconcile every account.

How's that? In a nutshell, inputting an investment change at the model level sets off a series of back-office events that ensures each client with an allocation to that model will see the impact of that change. Yet the leading-edge solutions also offer the ability to tailor each account uniquely, allowing for every client's specific needs to be fulfilled.

Drilling deeper, sophisticated model portfolio functionality provides:

**Simplified money management** – Advisors using industry leading model portfolio functionality enjoy easy adjustments to existing strategies and smooth rebalancing, as well as the ability to quickly introduce new investment options or strategies. Plus, when a handful of strategies are deemed appropriate for a client, each may simply be plugged into the client's single account and fine-tuned as needed. If the client holds legacy or out-of-strategy assets, leading model portfolio platforms instantly incorporate the extraneous securities into the clients account without disrupting heir strategies.

**Streamlined trading** – When tied to the right custodian, leading-edge model portfolio functionality dramatically decreases the time needed to enter, execute, and reconcile trades — even across thousands of accounts — eliminating the need for additional staff and freeing time for client contact. Meanwhile, calculation and reconciliation errors drop to zero, as does the likelihood of omitting a client account or mishandling a legacy or out-of-strategy holding. Ideally, the automated process also incorporates real-time position trading. This allows for quick moves in and out of the market and efficient cash processing, while eradicating the potential client-level issues that can result from trading a large book of business on an account-by-account basis.

**Scalable back-office processes** – The effort required to invest a new client's assets at a firm using advanced model portfolio functionality simply equals the time needed to enter the individual's vital information and allocate his or her funds to the existing model portfolios. That's it. All of the necessary trading flows through the system. So, too, does all performance reporting, gain/loss tracking and reporting, and fee calculation and management tied to any new piece of business. Down the road, consolidated client statements and online account access help keep clients focused on the big picture.

**Sophisticated investment capabilities** – Some advisors would love to expose their clients to numerous investment strategies, but their hands are tied by the account-based limitations of most wirehouse offerings. Thanks to the efficiencies inherent in leading-edge model portfolio platforms, advisors are free to frequently develop and refine strategies based on market drivers and in-depth analysis without worrying about the potential hangover of a trading system's limitations.

## Determining whether model portfolio functionality would work for you

Any number of back-office and custody service providers may say that they offer model portfolio technology, but for optimal impact on a growth-minded practice, advisors should ask potential vendors the following questions.

*Do I have the ability to move beyond account-anchored platforms and manage assets from the strategy level?*

*Does the model portfolio functionality conform — and enhance — my preferred business model?*

*Can I assign multiple strategies to a single account?*

*Is the model portfolio functionality flexible enough to handle variations in the structure and processing of strategies?*

*Does the system facilitate trading calculations and decisions based on real-time position data?*

*Is the model portfolio functionality part of a comprehensive platform that also features reliable processes to invest new money, generate funds, and automate the collection of management fees?*

Without satisfactory answers to these questions, the potential upside from utilizing model portfolios may be compromised.

## Trust Company delivers all of the above, and more

In today's financial services marketplace, one provider of model portfolio functionality stands out – Trust Company of America.

When tied to its comprehensive custody and advisor-friendly services, Trust Company's model portfolio functionality simplifies even the most complex money management methodologies, helping success-minded advisors:

**Enjoy unlimited growth.** Leveraging the scalability of Trust Company's model portfolio functionality, advisors may build up the client base at will, without worrying about adding employees, long-term training requirements, or an increasing trading burden stemming from an explosion in individual accounts.

**Renew a commitment to market-beating performance.** Traditional rebalancing likely requires more time and energy than you think. Trust Company's model portfolio functionality eliminates a significant amount of that time- and energy-sapping demand, leaving plenty of time for refining, testing, and implementing new and improved investment strategies and tactics.

**Sharpen customer service efforts.** With model portfolios in place, the advisor-client discussions may focus more on strategy and less on tactics. Additionally, with the time required to rebalance accounts reduced to minutes, there's plenty of time for answering phone calls or scheduling one-on-ones.

**Stop sweating the details.** Model-level trading all but eliminates the need to create more than one account per type for each client. Its automatic calculations, distributions, and reconciliations provide all the details for review — eradicating the need to spend time with numerous, lengthy calculations. It eliminates the need for multiple trading platforms. It takes just a few keystrokes to modify a client's exposure to a strategy. It automatically generates performance numbers. So what's left to worry about?

**Shore up the bottom line.** Included as part of Trust Company's standard custody fees, the model portfolio functionality eliminates the need for the installation and maintenance of third-party software, which chews up fees and staff resources.

**Become truly strategic.** Limitations of traditional model-based trading can easily impair investment decisions. The sophisticated tools built into Trust Company's model portfolio functionality allow for a blend of assets in each strategy, ease the incorporation of third-party money managers, and pave the way for more robust strategies that allow advisors to differentiate their offerings.

**Reinforce the firm's best practices.** With back office duties streamlined, the model portfolio functionality eases trading-related stress among employees and allows them to focus on what they do best. Meanwhile, it blends well into any practice approach, allowing for individualized attention and advice, including integrating legacy or out-of-model holdings.

So, what's the investment for this practice-altering application?

A modest upfront investment in training. But once you conquer the initial learning curve, it's nothing but net gains from the leading edge model portfolio functionality.

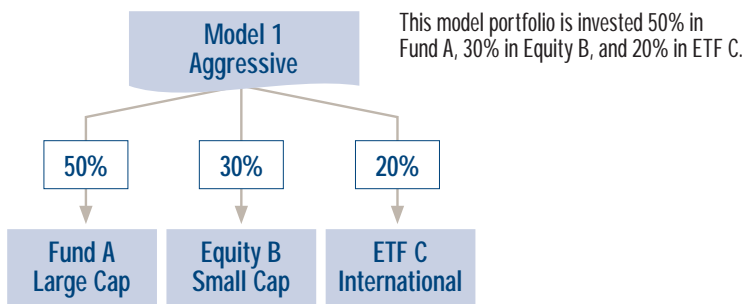
### Model portfolio basics

Integrated into Trust Company’s TCAdvisor trading platform, model portfolio functionality is very simple to implement. Plus, each model may be structured to fit your investment style and investment objectives.

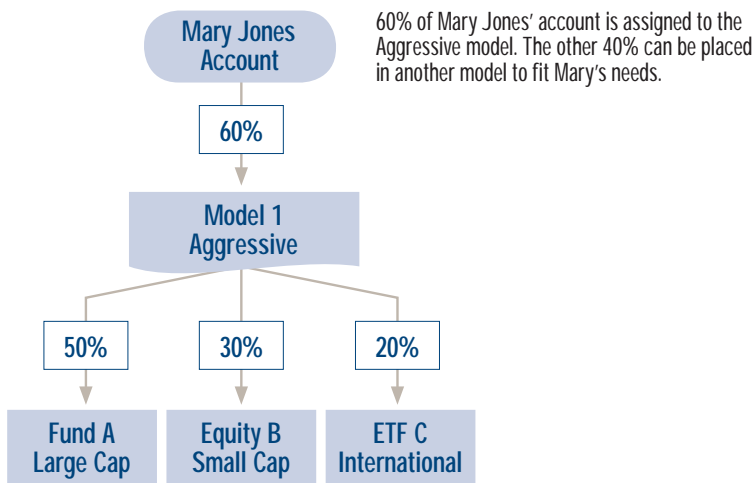
At its core, the model portfolio functionality allows advisors to:

- Build models with a mix of mutual funds, ETFs, and equities.
- Create models of models — more complex creations that consist of allocations to multiple standard models.
- Tweak tactical implementations of a single model — for example, set different allocation levels for sharply focused models within broader composite models.
- Assign multiple models — standard or composite — to a single account.

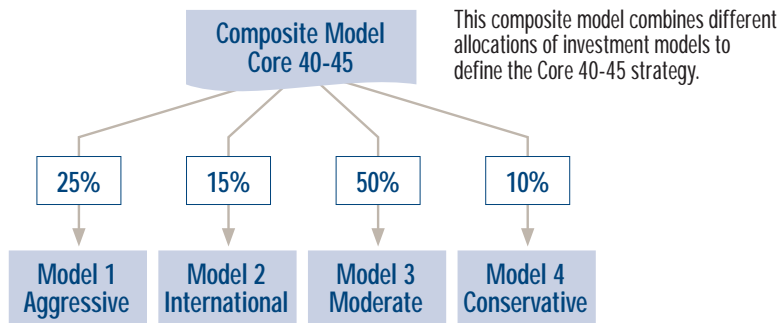
Developing a standard model can be as simple as assigning a 50 percent stake in Fund Company A’s large cap fund, 30 percent in a small cap stock, equity B and 20 percent in an international ETF C to a single model that captures in advisor’s aggressive strategy.



Once a client’s situation and risk tolerance dictates exposure to that aggressive strategy, the advisor simply accesses the client account and assigns the appropriate percentage — from 1 percent to 100 percent.



A composite model is a model containing other models. It allows the advisor to develop a broader core strategy consisting of multiple targeted strategies. For example, if an advisor devises a strategy for 40-to 45-year old clients that consists of 25 percent exposure to an aggressive model, 15 percent exposure to an international model, 50 percent exposure to a moderate model, and 10 percent exposure to a conservative model, a 100 percent allocation to a newly created Core 40-45 composite model fits the bill.



The beauty of the model portfolio functionality is that it allows for as much simplicity or granular tactical development as desired. Plus, complete advisor control means each model may be modified at any time and any client account may hold countless models alongside non-model, legacy holdings.

### A solution for all types of advisors

From afar, Trust Company’s model portfolio functionality may appear as though it has limited appeal to the investment advisor community.

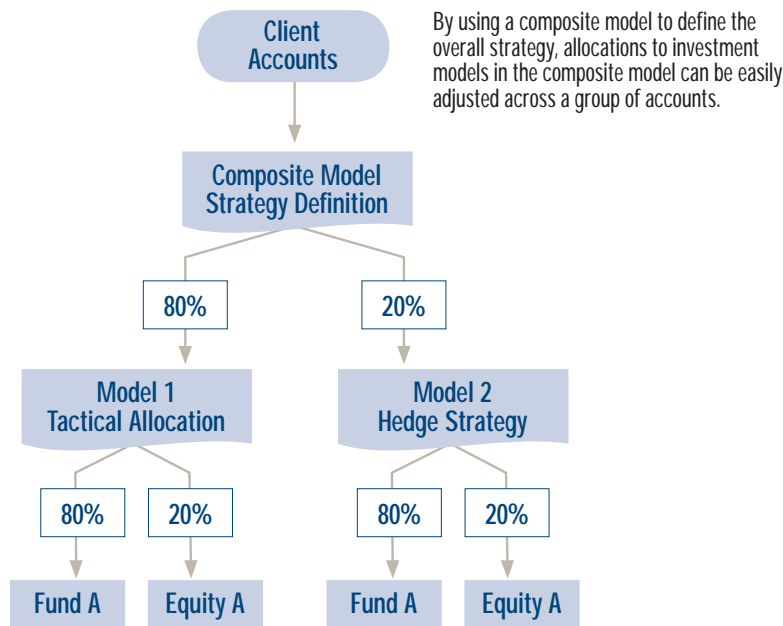
Look again.

Advisors spanning the entire money management spectrum may benefit from its power, flexibility, and ease of use, as well as the streamlined trading process on the back end. Furthermore, its competitive edge extends to practices with 10, 100, or 10,000 accounts because when investment decisions are made at the model level, every client with exposure to that model will automatically see the impact on their portfolio.

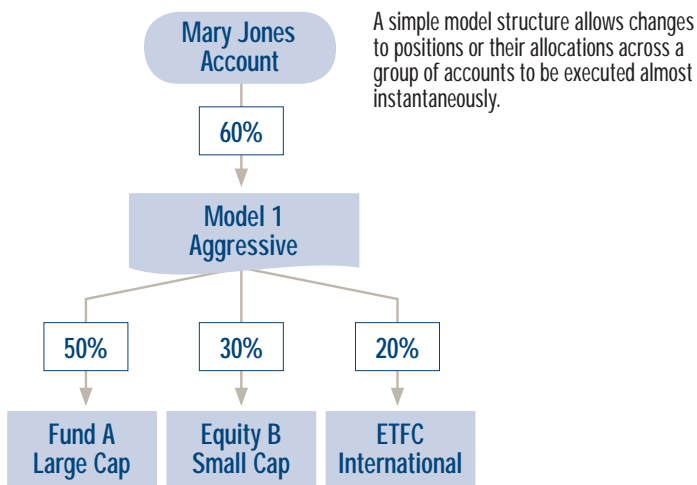
Advisors who make decisions at the client level also may benefit from model processing when taking on tasks like investing recent deposits. Even for a modest-sized practice, keeping clients fully invested is often a daunting task.

Consider how some of the following approaches may be effectively executed to ensure the fulfillment of an advisor’s strategic goal.

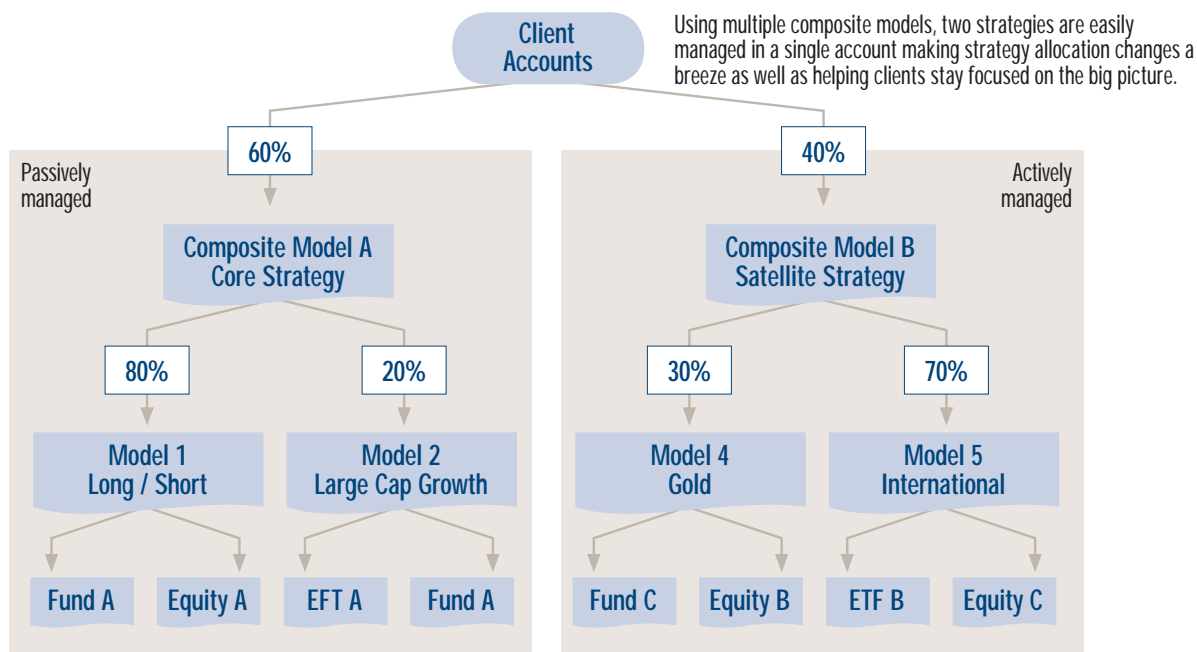
**Strategic asset allocation strategies** – Following a traditional approach to investing, the model portfolio functionality allows for the quick and easy setup of basic strategies featuring targeted asset allocation based on risk tolerance levels. This serves as a bedrock for advisors who, for example, develop aggressive, moderate and conservative models and assign one or a blend of the three to each client. Rebalancing, strategy adjustments, and client objective changes may then be carried out with nominal effort.



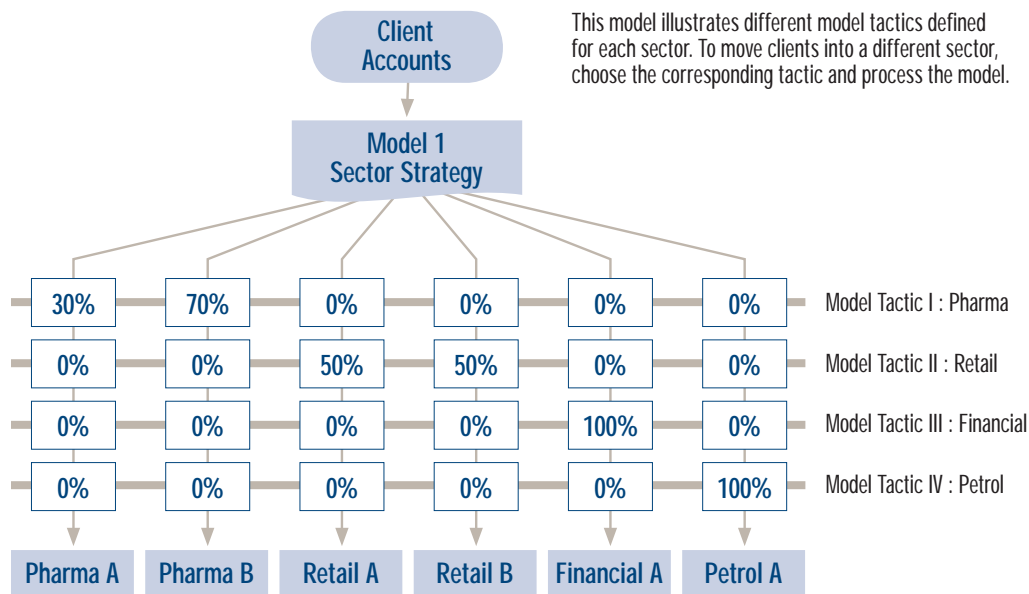
**Tactical asset allocation strategies** – Starting from a simple static model and building various what-if models throughout the day, tactical advisors may swiftly change investments or allocations across thousands of accounts in a moment’s notice to take advantage of market pricing anomalies or strong market sectors.



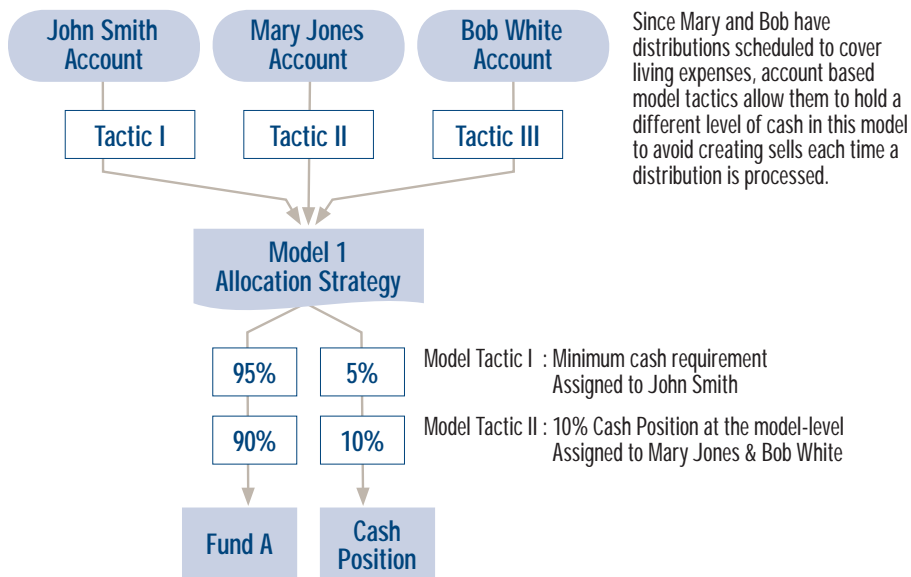
**Core-satellite strategies** – Composite models are created to represent each strategy. For example, one incorporates an advisor’s core model, which is passively managed, and the other, a satellite model, which is actively managed. While the core model is reviewed and rebalanced perhaps once a quarter, the satellite model may be revisited and modified as frequently as daily.



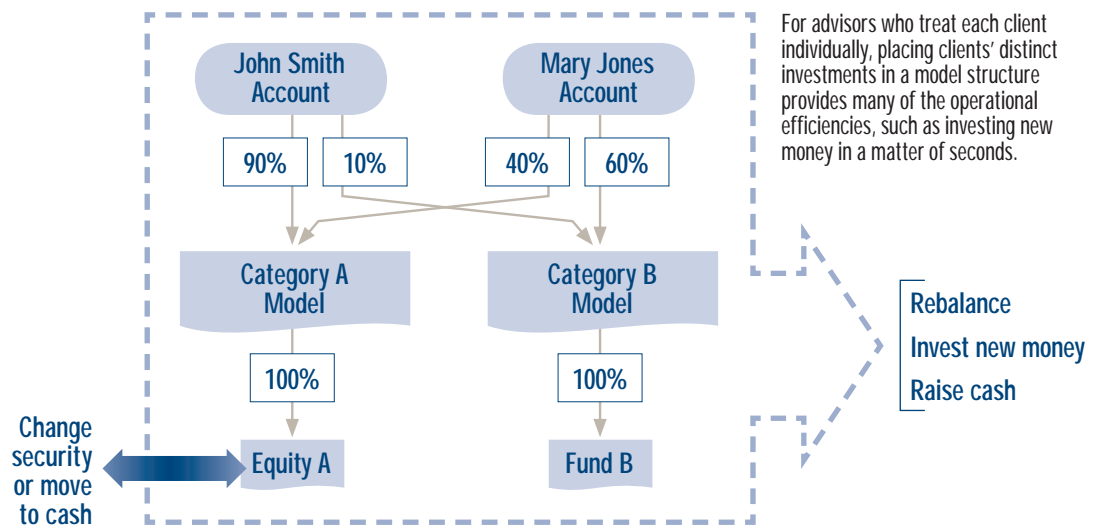
**Sector rotation strategies** – For rapid moves in or out of sectors, an advisor creates a model using template-based model tactics to represent different combinations of sector-oriented funds, equities and ETFs. Then, as market conditions change, sectors are rotated effortlessly across all accounts by applying the desired sector’s template.



**Cash management strategies** – To meet the needs of individual clients who require different levels of cash positions in their accounts, an advisor may create multiple variations of a model by using an account-based model tactic. This would allow for one client to consistently hold 20% cash to support frequent distributions while two other clients hold just enough cash to support trading and fee requirements. Similarly, account-level tactics can allow one group of clients to hold a sin stock and another to hold an alternate investment.



**Individual account strategies** – Trust Company’s model portfolio functionality can handle the most complex of investment firm approaches, even those that rely on unique strategies for each client. Whether each client has a different allocation of common securities or each has unique selection of securities built to fit their individual investment plan, model portfolios continue to streamline operations. Even exchanging two securities or selling out of a security can be done instantaneously across all accounts.



Regardless of the specifics behind the strategies, Trust Company’s model portfolio functionality has the capacity to enhance any advisor’s business plan.

**Future success hinges on efficient solutions**

In today’s competitive environment, the growth-minded investment advisor must be armed with a clear-cut advantage.

For some, that translates into exceptional investment performance. For others, it means exemplary customer service. Either way, back office efficiencies can help ensure that the growth occurs in a manageable fashion and doesn’t hinder any component of the thriving practice.

To that end, model portfolio functionalities represent the next step in the evolution of investment strategies. By providing a simple, streamlined approach to implementing and executing intelligent, well-reasoned approaches to managing money, the technology can generate significant benefits for any style of advisor — from the active tactician to the passive strategist.

As a comprehensive asset management and trading solution, Trust Company’s model portfolio functionality helps pave the way for investment excellence while facilitating heightened client contact. All while allowing for virtually unlimited growth.

## Definitions

**Model Portfolio, a.k.a. Model** – A group of securities that satisfy a defined objective. Each security has a desired allocation and allowable deviation from that allocation. Models allow clients with like objectives to be managed as a group creating efficiencies of scale and providing consistent execution. Along with portfolio management, models minimize the effort to investing new money or free up cash in a group of accounts.

**Composite Model, a.k.a. Composite** – A model portfolio that consists of allocations to one or more model portfolios. In its simplest form, a composite model is a model containing other models — a model of models.

**Model Tactic, a.k.a. Tactic** – A variation of a model portfolio where the definition — either the securities or their allocations — of a model is adjusted to meet a specific need. Since investment performance is calculated at the model portfolio level, model tactics allow for definition variations to be considered as a single model portfolio when reporting performance.

**Account-based Model Tactics** – Variations of a model that are assigned to each account in the model portfolio allowing a model to be tailored to a client's unique need.

**Template-based Model Tactics** – Variations of a model that can be implemented quickly to adjust a model portfolio to optimize its effectiveness under a specific set of conditions. While template-based model tactics allow different accounts to be assigned different tactics within the model portfolio, template-based model tactics do not require each account to be assigned a tactic as account-based model tactics require.

**Model Processing, a.k.a. Model-level Rebalancing** – A simple operation used to recommend trades based on a desired action, including rebalancing, investing new money, or raising cash for distributions and fees. Model processing can be performed on a single model portfolio or batch processed on two or more model portfolios. Many options are available including the ability to select accounts to participate based on different criteria, to select what models or model tactics to process, and to select different algorithms for determine which trades to recommend.

**Cross Model Processing, a.k.a. Account-level Rebalancing** – A simple operation used to recommend trades to bring an account into balance. Since one or more model portfolios can exist in a single account, this function is used to bring the allocations of multiple model portfolios in an account into balance.