

## Here's How Advanced Trading Technology Boosts Financial Advisors Even if they Eschew Market Timing

Done Right, Model Portfolios Solve a Host of Efficiency Problems

By Liz Hayden, Guest Columnist  
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*Editor's Note: I don't know about you, but I'm tired of the naysayers who bash market-timers in a bull market then turn around and bash buy-and-hold investors in a bear market. They never seem to offer a middle way, other than to mutter about the wonders of alternative investments. This column seems to offer some practical advice on how an advisor can get its investing [and business] process pushing back into the right direction in any market.*

There was a time, not long ago, when managing money was relatively simple. Investment advisors could do an adequate job by buying and holding securities according to three or four risk profiles.

As most advisors would tell you, this approach to asset allocation is no longer sufficient in light of recent history.

The past couple of years of market turmoil made even the most loyal clients express concerns as their asset levels dropped. With

buy and hold strategies largely discredited, advisors know that they need to find ways to be more nimble. But most advisors also know that a lurch too far in the other direction could put them into the realm of market timing.



With no investing panacea in sight, advisors had better at least be able to make trades quickly and efficiently when events occur in the market that demand it. It used to be sufficient to be able to adjust all the portfolios held by an advisor's practice in a 24-hour span. Often it could take three days and even that lag was not considered cause for alarm.

### INDEFENSIBLE DISPARITIES

The recent market crisis exposed just how costly a cumbersome trading process could be. Not only

would delays in trading hurt portfolio returns but they would cause indefensible disparities between the returns for one client and another.

The portfolios of clients whose shares were sold three days after a market event might sustain signifi-

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cantly greater losses than ones that the advisor could address right away.

Though solutions to providing market-beating investment returns may always be elusive, companies can tilt the odds back in their favor by automating trading processes through the right technology and the use of model portfolios.

For the investment advisor, such solutions have the added benefit of making the entire firm run more efficiently. This includes increased time to spend meeting with existing clients, recruiting prospects, and contemplating

new investment strategies.

In short, advances in technology make it so that the trading desk can go from being a drag on your time and resources to a competitive advantage for your firm. For example, it should be possible to make across-the-board portfolio changes with just a few keystrokes.

These are the four basic features of a state-of-the-art trading system:

## 1 SIMPLIFIED MONEY MANAGEMENT

Advisors should expect their trading technology to allow them to adjust to existing strategies and to rebalance portfolios smoothly. They should also be able to quickly introduce new investment options or strategies. At times when multiple strategies are deemed appropriate for a client, each one may be plugged into the client's single account and fine-tuned as needed.

## 2 HIGH-EFFICIENCY TRADING

When tied to a custodian with the right trading capabilities, 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 effectively 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 eliminating the potential client-level issues that can result from trading a large client base on an account-by-account basis.

## 3 SOPHISTICATED INVESTMENT CAPABILITIES

Some advisors would love to expose their clients to numerous investment strategies, but their hands are tied by the account-based focus of the Big Three custodians' technology.

Thanks to the efficiencies of the industry's best model-based trading platforms, advisors are free to frequently develop and refine strategies based on market drivers and in-depth analysis without worrying about the trading system's limitations.

## 4 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, distributions and contributions administration, and fee calculation and management tied to each account.

Once seen as a tool for frequent traders and client-shy advisors, model-based trading has evolved into a valuable, leveraged approach for money managers who employ a wide variety of asset allocation strategies. Even when strategies are adjusted for specific needs of individual account owners, the best model-based trading platforms continue to offer improved efficiencies.

Essentially, any advisor who wishes to sharpen the investment management discipline of his or her practice has the potential to benefit from the model-based trading framework. This is especially true in a market environment that demands adaptability and efficiency.

Times have changed. You can keep up on behalf of your clients as long as your strategies and tools provide you with the flexibility to handle the market's ups and downs.

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