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Outsourcing Inspires Strong Feelings in FAs: Study

By Murray Coleman April 27, 2015

To outsource, or not to outsource? That seems to be among the most black-and-white decisions many financial advisors make, according to the 2015 Trends in Adviser Compensation and Benefits study, produced jointly by the **Financial Planning Association**'s Research and Practice Institute and *FA-IQ*. The report finds that once a firm either embraces or rejects the idea of turning over part of its operations to third-party vendors, there's rarely a change of sentiment.

Of the nearly 700 survey respondents, 42% of firms outsource one or more functions, and 97% of those companies plan to continue doing so. Meanwhile, among the 58% of firms that don't outsource, only 8% intend to do so in the future.

"People pay us for our knowledge and experience, not for hiring a bunch of middlemen," says **Brian Merrill**, a partner at **Tanglewood Wealth Management** in Houston, Texas, which manages $850 million.

On the other end of the spectrum is **Brent Brodeski**, chief executive of **Savant Capital** in Rockford, Ill., which manages $4.4 billion. He's an unequivocal fan of outsourcing. Savant uses third-party suppliers for a host of functions, from compliance and technology to financial chores such as tax preparation and general auditing of the firm's books.

Brodeski expects Savant will spend more than $1 million this year on consultants and other external experts. "We find that outsourcing brings to our firm top talent in specific areas that would cost a lot to hire full-time," he says.


Brian Merrill

For example, he hires outside programmers to write code and do the grunt work of integrating systems. Full-time staffers keep the information flowing smoothly and troubleshoot any front-end user issues. "At the end of the day, we're financial planners," says Brodeski. "Outsourcing allows our people to focus on what they do best."

The advisors quoted in this article may not have participated in the survey, which was conducted anonymously.

Tanglewood's Merrill does admit to using an outside accounting firm. But that's mainly to add a second pair of eyes to his own staff's daily recordkeeping, for the sake of regulatory compliance. "It's a minuscule part of our business and nothing that we hang our hats on," he says.

Even in estate and tax planning for clients, Merrill dismisses hiring outside lawyers and CPAs as little more than a way of saddling clients with more expenses. "We don't want people to come to us feeling like the more questions they ask, the more it's going to cost them," he says. "We want people to see us as problem solvers who can work with [the clients'] own attorneys and accountants in a cost-effective and efficient manner."

As for investment management, Merrill, a published author on minimizing portfolio risk, puts his expertise front and center when marketing to prospects. "By using outsourcers such as privately managed account managers or hiring other advisors who just focus on investing," he says, "we feel like it would only dilute our relationships with clients."

Mark Balasa, co-CEO at **Balasa Dinverno Foltz** in Chicago, says his advisors do most investment management in-house. But the firm, which manages $3.2 billion, is closely watching robo-advisor initiatives at its custodians, Schwab and Fidelity. If these companies make online investment platforms available to their RIA customers for private labeling, Balasa figures his firm might be able to work with clients' younger family members who don't meet the $1 million account minimum. "These online investment services are opening new distribution channels for advisors to bring their own unique expertise to a much broader audience," says Balasa.

Having a robo-advice option on its website could also help the firm build a pipeline of less affluent investors whom it could otherwise not serve economically. "Even if they never reach a relatively high level of assets," says Balasa, "if you can figure out a way to serve them efficiently and cost-effectively as a firm, then that can turn out to be a net plus for both the wealth manager and the client."