

MORNINGSTAR OFFICESM • SOLUTION BRIEF

Set Yourself Up for Success

How to scale your advisory practice for growth



Running your own advisory practice can be incredibly rewarding — personally, professionally, and financially. But there are certainly some challenges. One of the biggest is managing growth.

It's a bit of a chicken-or-the-egg situation. There are only so many hours in the day, after all. At some point, you and your team will hit the productivity ceiling. That will limit your ability to bring in more revenue by onboarding new clients and offering more services to existing clients. But you may not be able to afford additional employees until you bring in more revenue (not to mention the many

challenges of finding, hiring, managing, and retaining the right advisors and support staff).

This is why so many advisors find it difficult to grow beyond a certain point. Ultimately, it ends up being a difficult choice — limit growth or cut back on services.

Fortunately, there are ways to avoid this dilemma. You can create a scalable practice by standardizing your processes and using the right technology — from client onboarding through reporting and billing.

Your Process: Consistency is Key

Creating a consistent process for every client will help you and your team manage time more effectively. It can help you streamline the workflow, prevent duplication of efforts, and avoid wasting time on tasks that aren't essential. A set process will also help you ensure the best service and the best advice for every client.

Aim for consistency in every aspect of your practice, including:

- Onboarding and information gathering
- Investment policy statements, investment advisory agreements, and other key documents
- Recommendations and financial plans
- Investment monitoring and management
- Billing and reporting

Achieving SCALE

The simple acronym "SCALE" will help you apply a standardized approach to your practice:

- **Simplicity:** Research shows that a properly maintained, diversified portfolio will outperform an actively managed portfolio over time.
- **Consistency:** Consistent models and procedures will help build internal infrastructure and allow for smoother onboarding of new clients.
- **Accuracy:** With simplicity and consistency comes enhanced accuracy. This is essential for quality control (and SEC compliance).
- **Leading-edge theory:** Modern Portfolio Theory, location optimization, and tax-efficiency are the driving factors behind leading edge-portfolio management.
- **Excellence:** Applying leading-edge theory consistently and accurately will result in excellent quality and service—leading to greater client satisfaction, more referrals, and increased revenue.

Look For a Single Technology Partner

The right technology partner can make ensuring consistent processes much easier. Look for a single partner that can add value throughout your workflow—instead of using a siloed tech stack with multiple providers.

Models and Investment Strategy

Done manually, managing your clients' portfolios can take a significant amount of your time. You can help to manage this time commitment by creating a consistent, streamlined process for your investment models and strategies.

Number of Models

You may feel that you wouldn't be offering personalized service with only a limited number of models. But personalized service doesn't mean that each client needs their own asset allocation model. After all, even if each of your clients were assigned the same model, the implementation would be different. There are differences in clients' number of accounts, types of accounts, taxability, cash needs, and more. And your recommendation would vary based on those and other characteristics.

If you're skeptical, try running the numbers on expected returns and standard deviations between a model of 65% equities/35% fixed income and one with 60% equities/40% fixed income. You'll see that the differences are minimal.

An optimal selection of allocation models could include:

- 100% equity
- 80% equity/20% fixed income
- 60% equity/40% fixed income
- 40% equity/60% fixed income
- 20% equity/80% fixed income

Number of Investment Options

Once you've established the basic allocation parameters, you'll create full "pie charts" with "slices" containing the eventual investments to be held in the portfolios. This is another area where it's all too easy to complicate your processes with little to no benefit to the client (and even potentially negative impacts).

To test this theory, look at the marginal difference in expected return and standard deviation between a model containing 10 investments and a model containing 30 investments. Holding three different small cap value funds, for instance, or allocating just 1-2% to certain positions likely overcomplicates your process without delivering value to the client.

Simple Model



Complex Model



Investment Structure

The next step is setting up your investment structure. Set up models at consistent levels, but avoid security-level models if you're using a manual process. (They don't allow for easy substitution of a position.)

To set up categorized models:

1. Choose a consistent category level.
2. State each model at the consistent category level.
3. Classify all holdings consistently at each category level.

You might set up models in any of the following three formats:

- Class
- Class and sector
- Class, sector, and subsector

Cash	5%
U.S. Large Cap	25%
U.S. Small Cap	10%
International Equity	15%
Real Estate	5%
U.S. Fixed Income	30%
International Fixed Income	10%

If you wanted to set this up as a class/sector/subsector model, for instance, it would be formatted as:

CLASS	%	SECTOR	%	SUBSECTOR	%
Cash	5%	Cash	5%	Cash	5%
Equity	50%	U.S. Equity	35%	U.S. Large Cap	25%
				U.S. Small Cap	10%
		Int. Equity	15%	Int. Equity	15%
Real Estate	5%	Real Estate	5%	Real Estate	5%
Fixed Income	40%	U.S. Fixed Inc.	30%	U.S. Fixed Inc.	30%
		Int. Fixed Inc.	10%	Int. Fixed Inc.	10%

Make sure to create each model using separate categories for each position you want to hold in the model. For example, if you plan to hold both a U.S. corporate bond fund and a TIPS fund, then the class-level model should contain separate classes for both U.S. corporate bonds and TIPS. A sector-level model should contain separate sectors for both U.S. corporate bonds and TIPS. And a subsector model should contain separate subsectors for both U.S. corporate bonds and TIPS.

Accomplish Hours of Work in Minutes

Manually setting up your investment models and structure can take hours of work. To make the best use of your time, consider a technology platform that can accomplish all of this—and much more—in just minutes.

Portfolio Management

Once you've set up your allocation models and chosen specific investments, you'll need to manage and maintain the allocations to support your clients' goals and risk/return profiles. Standardizing this process will help to streamline your operations and create consistency.

Rebalancing

As with other manual processes, manual rebalancing can be tedious and time-consuming. Setting up a regular schedule for reviewing portfolios may help. For example, rebalancing each client quarterly could be broken down into rebalancing one-third of the clients each month.

Tax Management

Another important way to provide the best service and help your clients achieve their goals is through smart tax-management strategies. Keep in mind that implementing these strategies without the help of technology can be very difficult.

Tax-efficient portfolio strategies can include:

- **Selling from high-cost lots.** Selecting high-cost lots instead of FIFO or average cost will reduce currently recognized taxable gains.
- **Location optimization.** Holding fixed income in IRAs and other tax-deferred retirement accounts helps to delay taxes. Holding appreciating investments like equities in taxable accounts creates an opportunity for lower capital gains rates.
- **Avoiding short-term gains.** Short-term gains are subject to ordinary tax rates, while long-term gains are taxed at lower capital gain rates.
- **Tax-loss harvesting.** This strategy involves selling loss positions in taxable accounts in order to recognize a tax loss—then replacing the sold positions with similar securities (not substantially identical) to avoid being out of the market during the 30-day wash sale period.

Technology is a Must-Have

It's virtually impossible to offer the best portfolio management without technology. Look for one that helps you not only monitor on a daily basis, manage, and rebalance portfolios but also allows you to increase tax savings and reduce fees.

Reporting and Billing

As with portfolio construction and management, standardizing your processes is the key to efficient reporting and billing. Creating consistent methods and formats for quarterly reporting can save you and your staff a significant amount of time. For billing, limiting the number of fee schedules will simplify administration while achieving compliance-friendly uniformity among clients.

Technology Provides Speed, Accuracy, Efficiency

A technology partner with end-to-end capabilities can provide automated reporting and billing that's integrated with the rest of your workflow. This not only saves time but improves accuracy—so you can bill appropriately.

Find the Right Partner

As you work to streamline your practice, finding the right partner—with the right technology—can help you establish credibility, provide outstanding service to your clients, and focus your time and attention on the things that matter most to you and the future of your business.

When evaluating your options, look for a partner with:

- A name you and your clients know and trust
- Powerful data and research capabilities
- The ability to support your firm and your goals as an individual
- Services and technology that can expand as your firm grows
- The flexibility to integrate internal and external capabilities

Consider Morningstar OfficeSM

Advisors around the world rely on Morningstar Office to power their growth and simplify their lives. Within a single, easy-to-use platform, it delivers:

- **Client communication.** Connect with clients anytime, anywhere, using an interactive portal for updates and insights that can help them stay focused on their goals.
- **Portfolio accounting and reporting.** See a holistic view of your custodial and held away accounts—and track client holdings, dividends, and returns. Create reports with snapshot views and detailed asset allocations.
- **Portfolio analysis.** Build portfolios powered by our data, and gain access to our independent research while you make key decisions.
- **Tax-aware rebalancing.** Maximize tax savings for all clients using Morningstar Total Rebalance Expert. You can align allocations on personal factors and market changes—not just at the end of the quarter.
- **Analyst research.** Content curated for you, including practical research and investor-focused reports to support your best-interest recommendations.
- **Security research and screening.** Sophisticated ways to work with the data can help you find the best managers, spot market trends, and build model portfolios.
- **Fee billing.** Easily calculate fees and create invoices and upload fee files directly to custodians—accurately, professionally, and promptly.

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+1 877 586-5405



OfficeSalesGroup@morningstar.com



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