**Portfolio Analytics**

By David L. Lawrence

The task of managing a client’s investment portfolio has become more challenging with respect to recent market conditions, to say the least. Many financial advisors have turned to creative solutions in order to increase the performance of their client’s accounts. Many are using non-traditional investments blended with traditional ones to create a higher performing portfolio, given the client’s risk considerations and asset allocation needs.

However, the challenge, beyond performance, is on reporting. With new alternative investments being used to bolster returns, many that may not have daily reporting; the challenge is how to present a report to your client that blends traditional with non-traditional investments given the differences in reporting data.

I recently spoke with Eric Clarke, President of Orion Advisor Services ([www.orionadvisor.com](http://www.orionadvisor.com)), who mentioned that advisors are asking for global options in portfolios and want to see the correlation data in their client’s portfolios. Eric said that Orion strives to provide a high level of data, even in cases where that data originates from outside sources. Some advisors are interested in creating a basket of holdings, then writing options to cover the holdings. Clearly though, dealing with alternatives takes more effort from advisors, according to Clarke.

Clarke also discussed some of the newer trends developing in portfolio management. Digital reports, that is, reports that can be prepared and delivered to the client directly, in digital form, is quickly becoming a more utilized service. Digital reports are faster, cheaper and more efficient. Clients are more aware of the benefits of this type of service and even older clients are gaining comfort with their access and use, according to Eric Clarke. Another trend mentioned by him is the increased use of email templates for use in providing market commentary. These templates can be designed with no personally identifiable information (for security purposes), yet customized to provide information specifically relevant to the individual client.

Dean Cook, President of FTJ FundChoice, a back-office investment management solution ([www.ftjfundchoice.com](http://www.ftjfundchoice.com)), also weighed in on this subject. According to Dean, advisors are looking for more than just client reporting. They need a holistic solution that includes client reporting, account reconciliation, fee-billing and much more. FTJ FundChoice, LLC has developed strategic alliances with a number of institutional pension consulting firms. These firms will use various analytical scenarios to create model portfolios using a combination of investment strategies and asset class blends to attempt to meet the investor’s desired rate of return while maintaining an acceptable level of risk. Coincidentally, FTJ FundChoice uses Orion for performance reporting and they use Advisory World for analytics. However, Cook stated that some advisors actually do not want portfolio analytics, and prefer traditional styles of reports for their intended purpose, which is to engage the client in a dialog on their goals.

Cook also suggested that blending investment models is the future and being able to do so with no minimums is a critical need. Additionally, he said that technology should be viewed only as a tool and not the solution.

Neal Ringquist, President at Advisor Software, Inc. ([www.advisorsoftware.com](http://www.advisorsoftware.com)) offered another opinion on this subject. The opportunities for hedge fund managers to grow assets under management continue to expand as pension fund, endowment, foundation, insurance and individual investors increase their allocation to alternative investments. To meet investor demand for absolute returns and diversification, as well as greater liquidity and transparency, an increasing number of hedge fund managers are offering hedge fund strategies through funds registered under the Investment Company Act of 1940 ('40 Act).

This trend has opened the door for advisors to have ready access to alternatives in their efforts to replicate returns previously enjoyed by their clients. It also has provided opportunities for financial advisors to compete by differentiating their investment services from others. But, the focus, according to Ringquist, still needs to be on goals-based investing and not purely on returns. He said that portfolio analytics are great for advisors, but goals are what are important to the client.

Portfolio analysis is a complex process that should include risk analysis. Addressing this issue was Phil Wilson, Founder and CEO of AdvisoryWorld ([www.advisoryworld.com](http://www.advisoryworld.com)). According to Wilson, Financial firms and investment advisors assume substantial fiduciary responsibilities and, therefore, liability when managing investor’s capital. Their ability to measure the riskiness of an investment portfolio and its constituent parts and whether the portfolio is suitable for a particular investor is paramount in meeting their fiduciary responsibility. In addition, each firm and advisor may have their own criteria for measuring the risk/return characteristics of portfolios and their constituent investments as well as the suitability of the portfolio and those investments for a particular client. The establishment of a methodology and stated “rules” regarding how portfolio risk and suitability are determined will go a long way towards mitigating the financial institution’s and advisor’s liability when managing investor’s capital.

At the 2013 Technology Tools for Today (T3) conference, held in Miami, Florida on February 11 – 13th, one panel of speakers (hosted by me) addressed several aspects of portfolio analytics. One of the speakers on that panel was Scott Burns, Director of Fund Research at S & P Capital IQ ([www.capitaliq.com](http://www.capitaliq.com)). Scott mentioned that, in a survey done by S &P of Wealth Managers, a wish-list of deliverables was assembled. The list included:

* Separating signals from noise - a need to reduce the information overload
* Modeling the future through rich scenarios – helping advisors understand the impact of events
* Ultimate drill-down – Helping provide understanding of complex relationships
* Deepen Dynamic & Interactive Analysis – a platform that allows advisors to explore and answer questions
* Intelligent risk management – helping advisors avoid bad investment decisions
* Predictive analytics & decision making – provide a higher level of knowledge
* Automation & reporting – providing services that allow the advisor to focus on what they do best
* Collaboration, prop data & mobility – Utilizing new technologies to access and control data

Scott mentioned, among other things, that S & P is working on a platform that would provide socialization of risk (i.e. sharing information, scenarios, analyses and risk reports.)

Ultimately, portfolio analytics should provide a reliable flow of data that is both timely and relevant. Most important of all, it should be an efficient solution for financial advisors and an easy to understand set of reports that are relevant to the client’s situation, goals and needs.

David L. Lawrence is Founder and President of **The Efficient Practice**. Efficient Practice is a consulting firm that provides financial practices, broker dealers and independent firms with comprehensive, profit-driven efficiency consulting, technology solutions and resources. For details, visit [**www.efficientpractice.com**](http://www.efficientpractice.com).