ENVESTNET

Envestat Report

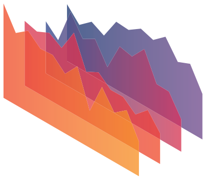
March 2017

Should You Do It Yourself?

There are many reasons financial advisors consider outsourcing asset management to professional money managers—from the opportunity cost of time that could go into meeting with clients and prospects to the desire to avoid being measured primarily as a portfolio manager. One important factor to consider in making this decision to outsource portfolio management is the difference in client outcomes in each scenario. Volatility is a key part of this experience: like turbulence on an airplane flight, the bumpier it is, the more jittery passengers become. When it comes to investing, the greater the swings, the harder it is for many clients to keep to a disciplined investment strategy.

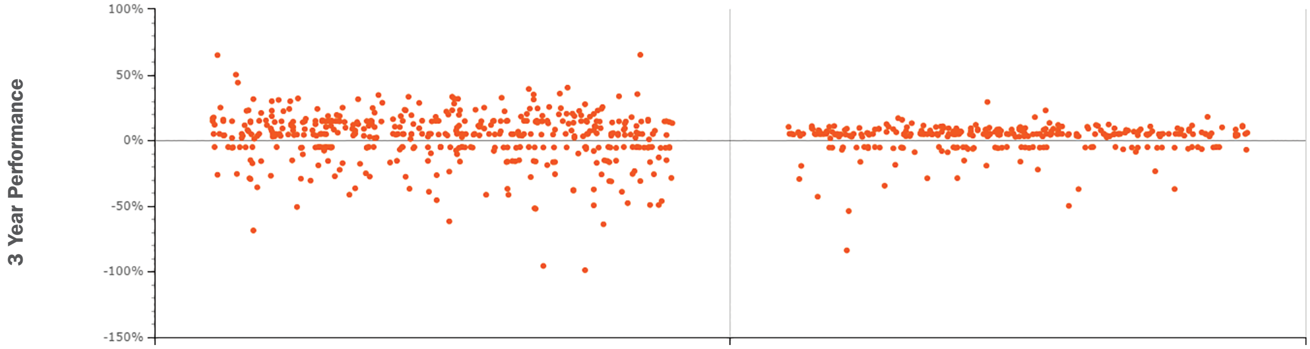
In this edition of **Envestat**, we examined the performance of financial advisor-managed accounts vs. those managed by professional portfolio strategists to answer two key questions:

- What is the difference in the dispersion of portfolio returns for financial advisors vs. portfolio strategists?
- Are financial advisors or strategists more likely to deliver less volatility (a smoother ride)?



One important factor to consider in making the decision to outsource portfolio management is the difference in client outcomes in each scenario.

Dispersion of Portfolio Returns: Advisor-Managed vs. Strategist Managed Accounts[1]



Advisor as Portfolio Manager (APM)
Standard Deviation[2] = 3.2%

Fund Strategist Portfolios (FSP)
Standard Deviation[2] = 1.6%

Note: Chart is for visualization purposes only. Analysis includes nearly 345,000 accounts segmented as follows: 180,800 advisor managed accounts, 163,800 fund strategist portfolio accounts. In the charts above, each dot represents a group of accounts that, according to a complex mathematical reduction computation, cluster around a common performance variable.

Envestnet's observations:

- Financial advisor-managed portfolios can and do outperform professional strategists in any given year, and sometimes in multiple years, but also appear to have exhibited more occurrences of significant underperformance.
- Over-performance in advisor-managed accounts can be as simple as being overweight an investment style (think large cap equities in 2016) without the drag of asset classes that are out of favor.
- Advisor-managed portfolios exhibited double the volatility of strategist managed portfolios, as measured by their respective standard deviations of 3.2% and 1.6%.

About Envestat

Envestat, Envestnet's industry analytics engine, delivers regular digests of business intelligence designed to provide context to the decisions that financial advisors and enterprise business owners face every day.

[1] Source: ENV Analytics. Data reflects 3-year performance as of 1/31/17 for open accounts on the Envestnet platform with a valid start date and where the risk rating must have a value greater than zero. The source for the data was the Period Performance Table that is in the ENV Analytics M2 monthly extract.

[2] Standard Deviation—measures the investment's volatility

EN-STATREP-0317 / SR #1042657