ENVESTNET

Envestat Report

September 2018

Can Advisors Really ‘Do It All?’

The desire to structure and manage client portfolios is oftentimes part of the advisor’s value proposition. Selecting investments and being responsible for those decisions can be a worthwhile endeavor. But how effective is it in the long run?

Given that a major portion of industry managed account assets are in advisor-managed programs (APM)—some $1.5 trillion—we thought it would be useful to look at the performance of these portfolios, not only year to date as of 7/31/18 but over one-year and three-year periods, as well.

We dug into the data held on the ENV Analytics platform to answer a few fundamental questions:

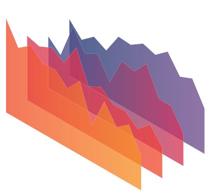
- **What percentage of advisors are outperforming their benchmarks and delivering alpha?**
- **What percentage of advisors are generating negative returns for their clients?**
- **What differentiates top-performing vs. bottom-tier advisors?**

Most of the assets held in Envestnet’s APM program are in the moderate risk tier.

Thus, we focused our analysis on the moderate risk tier over three different time periods: year to date as of 7/31/18, which covered 2,100 advisors; one-year performance, which comprised 1,900 advisors; and three-year performance, which included 1,200 advisors.

Envestnet’s Observations

We found that studying returns net of the benchmark, especially those that varied materially from the benchmark—either up or down—was much more instructive than merely analyzing absolute account performance by advisor. What was disconcertingly consistent was the high percentage of advisors who



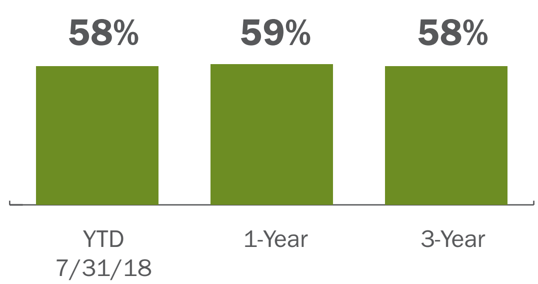
Only a small percentage of APM advisors succeed at generating alpha, and those advisors who do so have relatively fewer accounts and assets in their care.

generated negative alpha over the three periods analyzed (see left chart below). Nearly 60% of advisors were in negative territory, once the benchmark performance was subtracted from their performance.

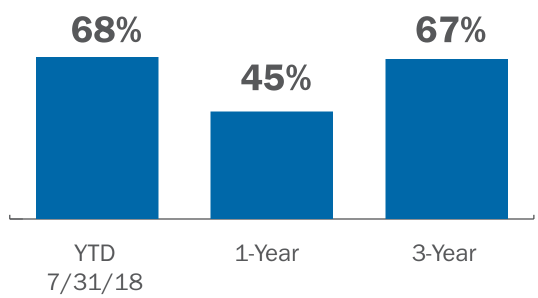
Even more revealing was our finding that around two-thirds of advisors generated returns that were either 1% above or actually below 0. (see right chart below).

Alpha Analysis of APM Advisors Over Time

% of Advisors With Negative Relative Performance*



% of Advisors With Relative Returns Ranging Between -1% and 1%*

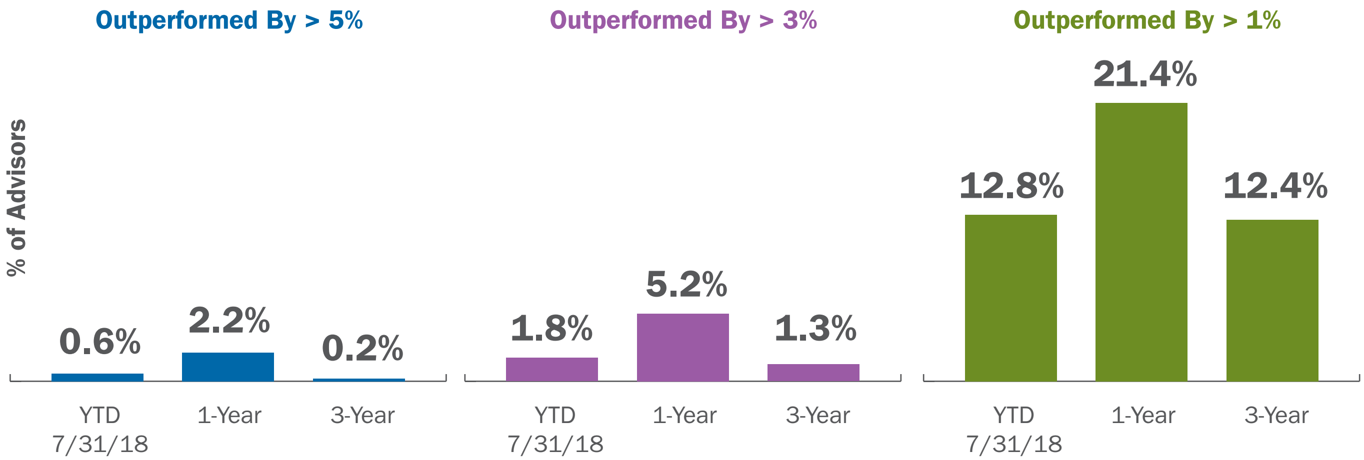


* Note: Analysis includes APM portfolios of advisors who have at least $5 million in APM assets in the ***moderate*** risk tier.
The Moderate Tier Benchmark is calculated as the average performance across Envestnet for that risk rating, program, and time frame.
Relative Performance is defined as Advisor Returns minus Moderate Tier Benchmark.

Examining the asset allocations for those advisors whose performance placed them in the top 10 and bottom 10 revealed that their portfolios were heavily weighted toward individual equities/managed positions, with the balance invested in mutual funds and ETFs. Recall that our [May 2018 Envestat] showed that the success/failure in individual equity investing (stock picking) is one of the factors behind the extreme volatility in returns within the program.

Only a very small percentage of advisors produced meaningful returns in excess of their benchmark. On average, those advisors who do manage to outperform their benchmark by more than 500 basis points tend to manage a smaller number of accounts and assets (see table below).

% of Advisors Whose Relative Performance Exceeds Benchmark



Characteristics of Advisors Whose Relative Performance Exceeds Benchmark

	Outperformed By > 5%		Outperformed By > 3%		Outperformed By > 1%	
	Avg Accts	Avg Assets (in $mm)	Avg Accts	Avg Assets (in $mm)	Avg Accts	Avg Assets (in $mm)
YTD 7/31/18	**30**	**$10**	31	$12	51	$17
1 Year	**47**	**$16**	49	$17	53	$20
3 Year	33	**$12**	**26**	$13	43	$21

Highlight boxes denote lowest average accounts and lowest average assets across the time period. Generally, advisors generating the most alpha tend to manage a smaller number of accounts and fewer assets.

Takeaways for Advisors and Home Offices

Advisors who attempt to "do it all" are experiencing mixed results, at best. It takes a great deal of time and effort to construct and manage client portfolios. Only a small percentage of APM advisors succeed at generating alpha, and those advisors who do so have relatively fewer accounts and assets in their care. Approximately 20% of advisor models significantly underperform the market benchmark on both an absolute and risk-adjusted basis.

Conversely, advisors who have a good model and apply it broadly across client accounts are likely to generate more attractive returns. And they can focus their time and effort on serving existing clients (who can be an important source of referrals), as well as cultivating new ones.

Our Envestnet Analytics service can help home offices and advisors identify, monitor, and make recommendations to help improve these models.

Contact us if you are interested in analyzing your own sales, net flows, and performance by program.

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.

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