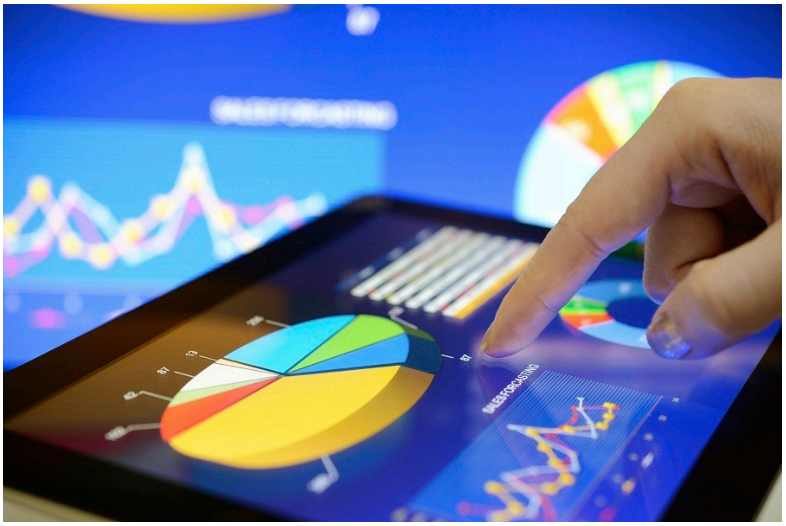
Fee pressure driving asset managers into wealth management



Cerulli study says mutual fund companies and wealth managers are swimming in the same channels.

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BY JEFF BENJAMIN

Faced with withering competition that is forcing asset management fees lower, mutual fund companies are branching out into portfolio modeling and invading the wealth management business, according to a new study from Cerulli Associates.

"The asset managers are getting part of the asset allocation fee that they would not have gotten in the past," said Cerulli Associates analyst Bing Waldert, citing the increased use of model portfolios and digital advice platforms by asset management firms.

Mr. Waldert lists BlackRock, Legg Mason and Invesco as examples of asset managers that have acquired robo platforms to provide turnkey portfolio modeling that can be accessed by brokerage reps and independent advisers.

“Now we’re seeing asset managers provide client-facing technology, asset allocation and trading platforms,” he said. “They are creeping into services you would traditionally associate with a wealth manager.”

Todd Rosenbluth, director of mutual fund and ETF research at CFRA, said moving into portfolio modeling and asset allocation, especially via digital platforms, represents a logical and natural progression for asset managers.

“The trend is going toward lower fee products, so firms need to be in that asset allocation game to avoid missing out,” he said. “Asset managers realize if they capture some of an investor’s assets they’re likely to capture all of the assets. And those assets inside those models are extremely sticky.”

One the earliest examples of how asset managers are leveraging asset allocation is the way BlackRock’s FutureAdvisor robo platform has been adapted by both LPL Financial and RBC Wealth Management. RBC abandonded the pilot program a year later.

Fidelity Investments is seeing growth across multiple asset allocation programs, including two digital platforms, according spokeswoman Erica Birke.

“Advisers are saying they want to spend more time doing high-value planning for their clients,” she said. “This aligns with an overall shift in the advice industry” toward more outsourcing of commoditized services like investment management.

“I think it’s great that large mutual fund companies are coming out with automated model portfolio services at competitive costs,” said Tony D’Amico, CEO and senior wealth adviser at Fidato Wealth. “I also believe people are looking for much more than just cheap portfolio management. They’re looking for in-depth planning, tax mitigation, risk protection, and planning for their heirs and legacy. They’re looking for somebody to make sure all the details have been planned for, based on what is important to them.”

Linda Y. Leitz, president of Peace of Mind Financial Planning, agreed with Mr. D’Amico. “Well managed mutual funds are important,” she said. “But if consumers don’t get good advice about which investment vehicles are appropriate for them, they aren’t well served.”

Cerulli’s research predicts that automation will continue to compress fees in wealth management.

“Automation will lower the cost of transactions, bringing down fees in wealth management,” Mr. Waldert said. “In addition, digital advice platforms emphasize asset allocation, which pressures fees in individual asset manager products and benefits exchange-traded funds.”