Helping Advisors Keep Their "Alpha Advisor" Status through Data Unification

A Conversation with InvestEdge Co-Founder Bob Stewart

*Data unification—**bringing accounting systems, third-party vendor data and held-away accounts together into a single portal**—sounds like a daunting project. But it does not have to be. And if done correctly, it can unlock tremendous value for advisory firms. A data unification solution makes advisors more productive, shortens the time spent on reporting, and enables advisors to turn data into knowledge and insight. With data unification, firms can establish or enhance their role as the "alpha advisor"—the one that clients turn to for their most important, farthest-reaching investment advice. In this Q&A, InvestEdge co-founder **Bob Stewart** discusses data unification and the positive impact it can have on business.*

How do advisors benefit from effective data unification?

Advisors perform best when they leverage their core expertise, which is investment management and maintaining long-term customer relationships. If they can outsource non-core activities, like data unification, they can reallocate resources toward meeting their strategic goals. Building long-term customer relationships with an annuity-based fee model is advisors' real business model.

Therefore, portfolio management that includes data unification not only reduces the risk of errors, but, more importantly, it also allows advisors to focus on what really matters and what they do best. The firm can become profitable and more competitive. Data unification is more than the sum of its parts—it is a way of taking the existing IT investment and the existing data and wringing much more value from them.

More specifically, advisors, and their customers, want data presented to them in a way that makes sense from an investment point of view. In addition, advisors want improved workflow and scalability and fewer errors when it comes to reporting. Too many advisors, large and small, who do not have the benefit of data unification, supplement their portfolio reporting packages with custom reports built on spreadsheets. That is a problem for two reasons. First, having investment managers spend their time in Excel expends valuable time and, second, most spreadsheets have human errors in them.[1]

1 Jeremy Olshan, '88% of spreadsheets have errors', *Marketwatch*, (April 30, 2013) <http://www.marketwatch.com/story/88-of-spreadsheets-have-errors-2013-04-17>

About Bob Stewart, Co-Founder, InvestEdge

- **Roots**

Back country of western Pennsylvania.

- **Career**

Started by working for the wealth management division of the fifth largest bank in the U.S. Then launched InvestEdge, without outside funding, with a goal of building the best investment platform anywhere.

- **Stress relief**

Long distance cycling.

- **Personal goal**

Ride 100 miles in under 5 hours.

- **Professional influence**

Putting myself in our customer's shoes.

- **Favorite quote**

The more I learn, the more that I find out what I don't know.

Are there opportunity costs to foregoing data unification?

All advisory firm leaders want their businesses to be more efficient and more responsive to clients. Investment managers are in demand, and they need to focus on tasks that drive the most benefit to their clients. But many firms have not recognized that data unification exists or is the way to get there. We sometimes have to help them see the connection—that data unification is the means, and that a more productive, more competitive firm is the end result.

What makes firms recognize the need for data unification? What are the pain points?

It's all about pain points. The first pain point is scalability. When investment advisory firms double their business, they have to double their staff, which can reduce profitability. The second pain point is realizing that reports don't compare favorably to competitors'. Reports from advisors represent one of the few tangible products that customers get for their investment fees. In fact, reports are the firm's primary mode of customer communication. So an inadequate report can damage the firm's advisors' relationships and cost business. Firms often come to realize this when their large customers tell them they have only given them a piece of their overall wealth to manage, which means that they're definitely not the "alpha advisor."

When advisors recognize that need, what comes first?

Firm leaders typically come to us and talk about a business problem, not a technology problem. They want their reporting processes to be faster, more accurate and more efficient. They want the reports to be more insightful from an end-customer perspective. They want reports to reinforce their brand as a trusted advisor, and they want their client relationships to be stronger. These leaders then recognize that they are losing money every day they delay implementing a system that can truly help them meet their strategic goals.

Who has the most need for data unification—big or small firms?

Both need it, but for different reasons. Small firms can get away with inefficient systems until they really become successful. Then they realize that they can't get to the next level without upgrading their investment and reporting tools

Big firms have even bigger problems. Not only do they have difficulty with efficiency and scale, but they also struggle to deliver a consistent client experience across their entire advisor network. By making it easier for investment advisors to do their daily tasks the "right" way, advisor acceptance skyrockets. Advisors are, in many ways, entrepreneurs, so they quickly see the "WIIFM" ("what's in it for me") and get on board with the new way of reporting.

Which types of advisors get the biggest bang for their buck by implementing data unification?

High-net-worth advisors benefit more than institutional advisors for a couple of reasons. First, high-net-worth customers are typically smaller in assets under management, but there are many more of them. Second, high-net-worth clients need more intuitive reporting because they're not investment experts. Making reports more intuitive means more analysis, which requires more sources of data.

If firms commit to data unification, what will change in their businesses? What will their businesses and their client relationships look like in five years?

After adopting data unification, advisors will reallocate resources to customer-facing tasks. The single biggest factor in high-net-worth customer retention is the amount of time that the advisor spends with them, listening to them and then demonstrating the value they provide. There are thousands of firms with similar investment products competing for high-net-worth customers, but the real difference is building a trusted personal relationship.

Advisors will then focus on going after larger high-net-worth customers who have reporting requirements that can only be met with data unification. One of the easiest ways to start attracting larger clients is to take on high-net-worth customers' held-away assets and demonstrating the ability to manage their entire wealth picture.

What should advisors know about the IT side of data unification that they don't?

Advisors know the business side well—how to guide clients to the right investment choices and how to grow the firm. But they are not necessarily experts in the ways in which IT can either support or derail that process. Most advisors understandably look at IT as a necessary evil—a cost center but not a source of profit or growth. The happy reality is that there is an IT solution that can help them grow their business.

How do you accomplish data unification without portfolio accounting?

An effective data unification solution is one that is designed to complement accounting systems. When there is already a books of record accounting system at the firm, it does not make sense to use another accounting system on top of it that reposts the same transactions just to arrive at another set of positions and transactions. We see that many firms use two accounting systems and spend way too much time and energy on reconciling one system to the other before they can use the front office data. An effective solution loads the holdings, tax lots and other data directly from the underlying accounting systems. That is what makes it the most effective solution for high-net-worth advisors.

Are there other benefits of using a data unification solution instead of portfolio accounting systems?

Unlike portfolio accounting systems, a well-thought-out data unification solution is structured to take data from many different sources, including multiple accounting systems. Front office components offered by portfolio accounting system vendors can only use the data that is in the accounting system, which was not designed to handle non-accounting data.

What is the first step the business leadership of the firm should take?

Take a hard look at your strategic goals and determine if your current technology is holding you back. Take the time to learn more about data unification and the benefits it can bring. It is worthwhile to switch sooner rather than later.