



Deciding to hire or outsource a chief investment officer

BY MARIO NARDONE, CFA

Hiring staff to focus on investment issues could be a great solution for established firms with enough revenue to create a chief investment officer position, which is often not a revenue-generating role. For smaller practices, though, hiring professional staff comes with real challenges. They must weigh the cost of hiring someone with experience and/or credentials such as a CFA designation—easily a six-figure proposition that might include giving up equity in the firm—versus hiring a less-expensive junior person who may or may not be up to the task. There could also be challenges with philosophical alignment, office dynamics, or even office space.

The following is an example of how to consider some of the issues in this critical decision.

Caught off guard

Jill is a financial planner—a sole practitioner who opened her business three years ago after earning the CFP® designation. She spends most of her time providing highly personalized service to a small but growing book of business and building her expertise on tax, estate, insurance, and so on. She knows each and every one of her clients' life stories, goals, kids' names,

and pets' names. Most of her clients think of her as family. By many measures, she is a competent advisor and well on her way to a long and successful career.

The remainder of Jill's professional time is used for marketing and networking activities in order to meet her revenue growth target of 15 percent per year. But she also carves out enough time each week for "running the business" tasks like billing and bookkeeping...and compliance...and technology...and so on. Meanwhile, Jill sees hers as a lifestyle practice that is designed to afford her the time and income to enjoy with her husband and two young children. But as her practice expands, she finds herself increasingly stretched.

One Monday morning, as Jill was prepping for a prospect meeting, her highest-paying (and, admittedly, highest-maintenance) client called to ask if or how the stock-exchange trading glitch the prior week might have affected the portfolio he has with her. A tinge of panic came over Jill as she realized she hadn't heard about the issue, and it had been a while since she last read *The Wall Street Journal*. It also occurred to her that she couldn't instantly recall if his portfolio held individual securities, ETFs, or mutual funds, since she regularly mixed-and-matched based on the client's preferences and legacy positions.

She remembered reading something about potential ETF trading anomalies, but that was months ago. She said she would have to get back to him, hung up, and instantly began her research, putting aside her prep work.

As advisors know, any number of situations can throw off a schedule or game plan. Sophisticated investment questions or a client's real or imagined investment emergencies, seem to be the most frequent and painful for planners. The financial media has made daily market gyrations and sound bites a part of mainstream news, in some cases feeding the financial uncertainty and fear that planners try so diligently to eliminate from their clients' lives. No number of "ignore the noise" reminders might ever fully eradicate this challenge.

This is especially acute for the solo planner, but it occurs in multi-professional offices as well, which is why many consider hiring a chief investment officer or an analyst to handle this aspect of the practice.

Outsourcing a CIO

Recently, some planners have turned to outsourcing investments by utilizing off-the-shelf options such as third-party managers or robo-advisors (which have been discussed and evaluated ad nauseam

in recent months). The services offer a reasonable level of reliability and due diligence. And they are “customizable.”

However, customizable is not the same as customized or individualized. In many cases, financial planners believe that their fee is earned by creating truly customized strategies and experiences for each client. The off-the-shelf third-party “solutions” might not provide the specialization they need or the professional staffing to respond to tough questions as they inevitably arise. Being available in-person or by phone to support a prospect or client meeting might not even be part of the offering. This is especially true for NAPFA members, whose

competitive advantage is offering personal service.

An outsourced CIO could be a better solution for advisors in need of true expertise but without the resources to build the knowledge base internally. Firms providing outsourced CIO services are expected to offer highly customized engagements, ranging from sub-advisory services to retainer relationships, and/or project or hourly work, depending upon the changing needs of the advisor client’s practice. In some cases, outsourced CIO firms have partnered with other service providers that combine to fill multiple gaps, such as investment operations or compliance.

In Jill’s case, being able to confidently tell her client that “her CIO” emailed her on Friday about the trading glitch and that there were no client impacts would have been a stress-free and immediate reply, and would have allowed her to go back to prepping for a meeting with her next prospective client. 

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