

## Rebalancing the Back Office

by David J. Drucker | 02-25-10

When Bill McAfee worked in the banking industry on both the lending and private banking sides, he felt that the banks he worked for were disjointed in their services. "The banks were only advising on the liquid portion of their high-net-worth clients' assets, which is what led me to start WHM Capital Advisors in 2002."

WHM, based in Columbia, S.C., works with families whose businesses are their largest asset.

"Our clients' attitude is that if we're willing to help them with their main [illiquid] asset, they'll give us the asset management work--which they see as a commodity anyway--as well as allow us to advise on other financial issues too," he said.

McAfee said that 80% of his firm's new assets come from his clients' liquidation of their privately held companies.

"We talk a lot about how--when families get to that 'liquidity event'--they need new advisors. They've probably had an M&A-type advisor in the past--someone to help them through the short-term process of getting liquidity--and then they shop for an advisor to assist with wealth management and family office services," he said. "They couldn't get this 'macro issue coverage' from their earlier advisors."

What WHM does is provide advice leading up to the liquidation event as well as management of all the clients' assets through and after the liquidity event. McAfee sees this service as a much superior to the service offered by banks that simply can't meet all of their small-business clients' needs.

"When talking with prospective clients, we don't lead with asset management because we don't want to compete with thousands of other firms that focus on assets," said John Barnes, WHM's chief operating officer. "The management of their liquid assets comes to us because we've helped them with other things."

Still a relatively new firm, WHM consists of five employees and works with 35 families representing \$40 million under management. McAfee says that about half of these families have had their liquidity event and the other half will have one at some point in the future. As liquidity events occur, their assets under management grow.

And as assets grow, advisors need to find efficiencies in the manner they are managed. Thus Tamarac.

For those not familiar with Tamarac, it's a Seattle company that has built a reputation on its portfolio monitoring and rebalancing software over the last 10 years. Its Web-based portfolio management system permits efficiencies in the account rebalancing process, and in the areas of cash management, tactical trading, tax-loss harvesting and trade order generation, as well. This year Tamarac released a fully integrated and Web-based investment management and business automation technology suite, along with outsourced services.

I asked McAfee and Barnes what WHM did before adopting Tamarac. "We use Advent Axys for portfolio reporting," McAfee said, "and prior to adopting Tamarac as our rebalancing solution, we were running a pretty robust spreadsheet--trying to manage portfolios with that. The spreadsheet approach was simply getting unwieldy."

He said that as cash would come in, tasks like figuring out what to buy with the new cash and how to

allocate and balance the portfolio were taking days and weeks to work through.

"When John joined the firm in 2007, with his background in the operations department of a large bank securities division, he pointed out that our process was not going to allow for growth. We adopted Tamarac and processes that used to take weeks now take half a day," he said.

McAfee and Barnes discovered Tamarac at the 2007 Morningstar Investment Conference.

"By October 2007, we'd purchased it and were going through the training," McAfee said. "We took it live with clients in December 2007. Not only is Tamarac a great tool, but it met every box we'd checked about what we were looking for in a solution. We run some rather complex portfolio models with numerous layers to them; Tamarac is able to handle these customized applications with no problems.

"In the past, we looked at our clients' portfolios weekly. If a position was 20% out of balance, we would execute a trade, and that was a problem because the system was too cumbersome with so many levels of portfolio construction," he said.

"Now," Barnes said, "after using Tamarac for about two years, it's allowed our business to be very scalable ... to grow. In fact, a local bank has asked us to be a private label provider of asset management services because they saw and liked our process. They recognized it as scalable even though we were small. Tamarac allows us to appear and service clients like a much larger firm."

I asked McAfee and Barnes how the Tamarac process works for them.

"First, Tamarac allows us to upload our investment models developed based upon client needs for fixed income versus equities or special needs such as more liquidity than other portfolios might otherwise have," Barnes said. "Then, through an electronic interface we upload our clients' holdings from Advent, a process that takes about 45 seconds. Tamarac takes them and compares them to our models. Let's say 1% of a client's stock should be in IBM and the price has moved up and IBM is now 20% higher than 1%. For shares outside of the boundary, Tamarac will recommend a sell order. It then takes into account the cash generated, looks to other investments, takes the dollars from the sale, determines which assets need to be added to, and recommends a buy. So, it's a rebalancer tool, but it does everything in a matter of seconds and provides an SEC-compliant trade list."

Using a performance attribution methodology, McAfee and Barnes said that they believe Tamarac has actually improved their clients' return on investment by approximately 135 basis points.

"During the last year's market volatility," McAfee said, "without Tamarac we probably couldn't have taken advantage of the rebalancing gains we've experienced due to the extreme peaks and valleys we've had. It's hard for us to say if this premium will persist over the longer term; maybe a flat market will bring a different number."

Tamarac is impressed with WHM's success too. The company has offered WHM the ability to distribute its model portfolios to other advisors via Tamarac's portfolio-management platform.

Other advisors can share WHM's experience, Barnes said, by having a process, which is the right thing to do not only for business profitability but for client service, too.

"Clients don't expect you to always hit a home run, but you should be able to articulate why you're doing what you're doing," McAfee said. You must have a consistent process so clients will have confidence in your ability to navigate through different market environments. If you're just going on gut feel, clients say they can do that themselves. Clients have told us they feel comforted by our process, one they see even in larger firms."

The other benefit advisors can share by using a solution like Tamarac, McAfee said, is the ability to stay in front of clients. "If you have clear systems and processes, then you don't spend all your time in the back office. I remember a client about two years ago who had split his manager relationships.

We had a piece of his assets. The client eventually moved more assets to us, saying, 'I see you guys more often and hear from you more often.'

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