Three Questions to Ask Before Outsourcing Investment Management to a TAMP

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Scott MacKillop | Aug 13, 2024

The number of financial advisors outsourcing the investment management arm of their businesses has grown dramatically over the past several decades. Assets managed by turnkey asset management programs have swelled to approximately $853 billion at the end of 2022, up from $162 billion in 2010. The industry is expected to continue to grow at an annual clip of 25%.

The growth trajectory of TAMPs partially reflects their evolution from offering back office and/or operational support to managing investments and, in some cases, broadening their services to deliver a complete platform for wealth managers. But it’s not just advisors who reap the benefits of outsourcing investment management—clients do, too.
Morningstar notes that while outsourcing this function doesn’t necessarily foster deeper relationships in and of itself, it does enable the advisor to increase time spent with clients, building trust and thereby enhancing the client experience.

Regulatory pressures expanding fiduciary responsibilities have also increased advisor interest in outsourcing. By delegating investment management, advisors can reduce potential liabilities and free up time for client-facing activities, aligning their interests more closely together.

Ultimately, outsourcing is a highly personal decision based on an advisor's specific business circumstances, not general industry or market trends. Let's look at three critical questions that advisors and their firms should ask themselves before engaging with a TAMP.

What Is Your Passion?

Remember why you became a financial advisor—it may help to ask yourself: "Why did I choose this career?" Advisors generally fall into two categories: those who love the technical side of the business and those who thrive on client interaction.

If you're passionate about the process of investing itself, outsourcing may not be for you. After all, why give up what you love? However, if your enthusiasm lies in client service, outsourcing investment management could allow you to focus on what truly excites you.

If you are more of a "people person," outsourcing could be beneficial, freeing up significant time each week. This could allow you to engage more with clients and prospects, improving your workflows and energizing you in the process.

Where Do Your Talents Lie?

Even if your team is passionate, there might be skill gaps. Ask yourself: "What am I good at?" If you enjoy investing but lack the necessary skills to do so competently as you scale, consider outsourcing. Your clients deserve the best, and RIAs have a fiduciary duty to act in their best interest. Be honest in evaluating your capabilities.

If you're skilled at investing but don't enjoy it, think carefully before outsourcing. Your clients should not suffer because you wish to offload an unpleasant task. Ensure your outsourcing partner can match or exceed your existing service quality.

What Are Your Goals?

Evaluate both short-term and long-term goals for your firm. If you're content with your current situation, then avoid outsourcing—as it may prove disruptive at the outset of the engagement. Choose to outsource only if it aligns with specific, clearly defined firm goals.

Outsourcing can help achieve those goals but ensure that you clearly articulate your objectives before deciding. Weigh the potential benefits and trade-offs to determine if outsourcing aligns with your vision for your practice.

Assess the Benefits

Outsourcing to a TAMP can provide advisors more time for prospecting and servicing clients, fostering growth and retention.
Unsurprisingly, studies have shown that financial advisors who outsource tend to have larger, more profitable firms than those that do not.

TAMPs also allow firms to concentrate on core strengths while outsourcing non-specialized areas. By leaning into outsourcing for broadly diversified portfolios, many can focus internal resources on specialized offerings.

Examples include alternatives, larger complex accounts or high-value personalized services like financial planning where they can address clients' individualized needs.

From an operational standpoint, outsourcing can help advisors avoid the costs and staffing overhead of maintaining in-house portfolio accounting, performance reporting, billing, trading and other systems required for investment management—freeing up resources and bandwidth.

For practices undergoing business succession or institutionalization for a future sale, outsourcing professionalizes the investment function so it can persist independently from any single advisor's departure, while enhancing transferability and continuity.

Is a TAMP Right for Your Firm?

Outsourcing investment management to a TAMP is a significant decision that should be carefully evaluated against your firm’s specific goals, passions and talents. For advisors who love the investment management process and consider it a strength, keeping investment management in-house may be preferable.

However, for those whose talents lie more in client-facing activities like holistic financial planning or for firms aiming to focus on specialized offerings, a TAMP can be an ideal solution. It frees up advisor bandwidth to concentrate on high-value services that clients increasingly demand while providing cost-effective access to professional investment management and operational efficiencies.

As the industry continues to evolve amid heightened regulatory pressures, firms that strategically evaluate and align their outsourcing decisions with their long-term vision will be well-positioned for growth and success. A thorough assessment of your firm's needs and careful consideration of the potential benefits and trade-offs will guide you in determining whether a TAMP is the right fit for your practice.