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YourQ&A: What Advisors Should Know about RIA Technology

YourQ&A published on May 27, 2009

There are **2 comments**. Most recent comment on 5/27/2009 at 9:14am EDT

Question

With all the issues to examine in leaving a wirehouse, how much consideration do advisors give to the technology offerings of the RIA, and how should they conduct such an evaluation?

Consultant, Wealth Management Industry

Answer



Bevin Crodian is CEO of [Market Street Advisors](#)¹.

An advisor leaving a wirehouse to become an independent RIA faces a daunting due diligence task concerning the technology required to support his or her business. We have heard the assertion that the migration away from wirehouse consulting would be even greater if it were not for this and related issues – a sign that technology is certainly taken under consideration.

Remember that not all independent sponsors provide the same services, so it's important to ask good questions and demand complete answers. Consider that there are many elements to the technology required to support a front, middle and back office for an independent consulting firm. Some technology areas – such as client service and proposal generation – are visible to the advisor, some are not.

Components that are not readily observable include the accounting engine, the performance measurement system, the order management system and the data warehouse. For advisors, the best course is to ask for access to a knowledgeable and forthright technology professional who works for the provider. Ask the professional to describe the basic architecture of the platform, ask about the custody relationship or relationships, and ask for a description of the major components. Many of these answers will probably sound like techno-babble, so you should also focus on these more direct questions, including:

- What kinds of securities can your system account for? For example, in addition to domestic equities, mutual funds and exchange-traded funds, can the system handle hedge funds, short positions, foreign ordinaries, derivatives and complicated forms of fixed income?
- On what kinds of securities or conditions can the system measure performance?
- How receptive is your system to accepting trades from another broker-dealer?
- What future enhancements are being planned? What is the history of recent enhancements?

The answers to these questions will bear heavily on the kinds of reports that you can generate and the services/products that you can offer to clients now and in the future. If the platform can't deliver a professional who's knowledgeable enough to answer these questions, this is not a good sign.

Of course, the observable parts of the platform are easier to judge. To the extent possible, you should have the reporting, client service, rebalancing and proposal generation functions demonstrated to you. You should take one of your existing client reports and inquire about their ability to replicate it accurately or to further customize it when necessary. Ask if these reports can be made available to the client online and how often performance numbers are calculated. Also ask how often the performance is accurately calculated.

Further, you should ask about the platform's ability to provide business and portfolio reports such as allocation drift, as well as client relationship management tools. Ask if you can access these reports online, and how often they are updated. Regarding proposals, you should run a series of hypothetical client profiles to see the range, variety and quality of proposals. And if you assume that you will be accessing multiple custodians, you need to ask about the portfolio aggregation functionality, if any. Most likely, you will have to pay for this service separately, so you will have to do a distinct vendor search for it.

A necessary suggestion is not to be misled by "gee whiz" functionality. This refers to an aesthetically compelling graph or table that may grab your attention but will have little or no bearing on your ability to provide clients with easy access to an accurate, timely report in an agreeable format. The final caveat is this: No platform can do everything. Beware if the answer to all or most of your questions is, "Yes, we can do that." This, too, is not a good sign.

YourQ&A is your opportunity to get your pressing questions answered by industry leaders.

Discussion "What Advisors Should Know about RIA Technology"

5/27/2009, 9:14am by MarketCounsel

This response focuses on technology made available to financial advisors by broker-dealers or custodians. More significant issues surround the acquisition of technology by a start up RIA. These new firms have to worry about CRM, accounting systems, financial planning applications, portfolio measurement and reporting systems, etc.

5/27/2009, 9:14am by Money-Media Interactive Editor

This comment is being posted by the Money-Media Interactive Editor for: **Bevin Crodian, CEO of Market Street Advisors.**

This is a point well taken, and it is true that it is nearly impossible for a start-up shop to assemble all these technologies in a cost efficient way. This is by far and away a much more daunting task than picking an existing platform. It is for this reason that many independent RIA's will "rent" or private label these services from the firms that provide their clients with custody services. Later they may fill-in with various desktop technologies as their business evolves.

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