




CORNERSTONE

— PORTFOLIO RESEARCH —

• INVESTMENT SUPPORT THAT FUELS YOUR GROWTH •

Top 10 Ways An OCIO Can Help Your RIA Flourish During Volatile Markets



The stock market has been very volatile recently due to several uncertainties created by inflation, supply chain issues, and a thriving employment market. In fact, 2023 has the potential to be a more volatile year than 2022 (especially if inflation remains high and the labor market cools considerably).

Existing bond prices are also declining in value due. This is due to the actions of the Federal Reserve as it raises interest rates to fight inflation. Investors are seeking financial advisors who can help them minimize losses in these volatile markets. This creates a more complex form of investing when financial advisors may recommend asset classes that have lower correlations to the U.S. equity and fixed-income markets.

As a result, financial advisors may need additional knowledge to recommend the best investments in these asset classes. And, it will take more time to conduct investment research and make recommendations for clients' portfolios.

As an RIA or independent investment professional, this may also mean that you may have less time. It gets harder to interact with nervous clients during such volatility if you are spending more hours doing investment research.

This eBook addresses many of the major issues that may impact you and your firm as you manage clients' assets under volatile market conditions. We consider how the services of an experienced OCIO team may be worth exploring, as well.

We hope you find this guide helpful as you consider the right investment research and management strategy for your firm in 2023 and beyond.

To your success,
Thomas Balis



How Many Hats Can You Continue To Wear in 2023 and Still Produce Organic Growth for Your Firm?

As a principal at a smaller RIA, you may find that you are having to wear multiple hats in order to effectively manage your business and clients: planning, investing, servicing, marketing, administration, etc. All of these activities can detract from your ability to add new clients and service existing ones.

The more hats you wear, the higher the probability you will be spread so thin that your marketing efforts for new prospects may be ineffective. On the other hand, the more focused your activities are, the higher the probability that you will be successful—at both retaining current clients and adding new clients.

Your primary focus should be sales (adding new clients) and service (retaining current clients) because these are the two activities that are the most difficult and expensive to outsource.

Takeaway: Outsourcing your investment research and/or investment management services to an OCIO team of professionals can give you the needed time to provide highly focused customer service during uncertain times.



Why Is Managing Money More Complicated During Volatile Securities Markets?

It starts with your client's expectations: What did you tell them they could expect during periods of market volatility? Did you tell them you would take steps to protect their principal and/or minimize losses during periods of stock market volatility?

Or, did you tell them markets go up and down and that they should be disciplined and stay invested until the markets recover?

It's possible that some of your clients may have given your firm credit for the exceptional market returns that occurred between 2009 and 2021. If they did, these same clients may be inclined to blame you for any negative rates of returns they might experience in 2022 and/or 2023.

Negative returns can erode trust and create a situation in which your client is considering changing firms.

Most investors have emotional attachments to their money. Their primary emotions in down markets are fear of loss. This added complexity means that you have to spend more time managing their investments and more time managing their emotion-backed financial decisions.

Takeaway: OCIOs can do much of the heavy lifting for you by creating investment strategies customized to the specific needs/goals of your clients that also account for market volatility.



What Kind of Investment Results Do Your Clients Expect During Recessions, Periods of Inflation, or Down Markets?

There are very few places to hide during periods of recession, inflation, stagflation, and/or down markets. Just about every public company has trouble producing positive earnings growth during these periods of economic and securities market turmoil.

At the same time, there may be alternative asset classes that perform better than common stocks during periods of excessive inflation. For example, income-producing real estate may remain consistent due to the rents that are indexed to inflation.

Some industries are also more inflation-resistant because consumers need their products (such as food) and services (including utilities), regardless

of prices. There may be other ways in which consumers can cut back on expenses. In general, discretionary spending suffers the most during inflationary times.

There is no question that managing money is more complicated and time-consuming during these market conditions. Positive returns may be difficult enough. Positive “real” returns (net of inflation) and net returns (net of expenses) may be even more difficult to achieve.

Takeaway: Working with an OCIO who has specialized knowledge related to alternative asset classes may help your client portfolios survive and thrive in volatile markets.



Why You May Spend More Time Servicing and Less Time Managing Money During 2023

If you are like most financial advisors, protecting the relationships (revenue) you have takes precedence over all of your other activities. This can mean more communication with your clients (written and/or verbal), which may impact the amount of time you have to market your services to new prospects.

Additional Zoom calls, reports, and meetings to keep clients current on what is happening in the market—and most importantly, why it is happening—are critical components to retaining clients. The more volatile the markets, the more time you will have to spend communicating with existing clients.

Based on the principle that there are only so many hours in a day, the more time you spend servicing current clients, the less time you will have for other activities. How you allocate your time can have long-term consequences for your firm.

Takeaway: Your time is a precious resource to the success of your firm. When you partner with an OCIO, you should, in theory, be able to free up your time so your firm can flourish, even during a period of stock market volatility.



Why Are Volatile Markets the Ideal Conditions for Adding New Clients?

Volatile periods can be an ideal time in one respect: These conditions are often great for marketing your services and adding new clients. The reasons why are surprisingly simple.

During Bull Markets, investors give their financial advisors credit for their positive returns. Consequently, very few investors are inclined to change advisors. On the other hand, the same investors may blame their advisors for negative rates of return during Bear Markets.

In other words, they may start seeking a new advisor. You may also see a shift of D-I-Y-er-s who

no longer want to manage their own money when markets are volatile. Perhaps managing their own assets was not the simple investment process they thought it was.

Takeaway: By having an OCIO in place to oversee day-to-day investment research and/or portfolio management for your clients, you may be more able to do important prospecting for new client acquisition.



How Do You Benefit When You Have Something New To Talk About When You Meet With Current Clients?

Again, investors start thinking about change if they are unhappy with the recent performance of their assets. This, often, could mean terminating their current advisor and hiring a new one.

However, there is a strategy for countering (and possibly, winning new clients as a result of) this: You could announce the addition of a new professional (CIO) on your team who will be responsible for the investment recommendations and decisions by your firm.

Takeaway: Having an OCIO on your team can be something new and positive that should benefit your clients. This may compel them to continue staying with your firm.



Are You Prepared To Respond to Rapidly Changing Market Conditions in 2023?

It bears repeating that there is a distinct possibility that 2023 will be a more volatile year than 2022. If inflation continues to be a problem and the employment market cools, it seems all too likely.

Ironically, our main trading partners in Europe and Asia are also in trouble, so globalization is not the option it has been in the past.

You may want to be ready to respond more quickly based on rapidly changing market conditions.

An OCIO is a professional who is responsible for anticipating change and tweaking portfolios to reduce risk and volatility.

Takeaway: An OCIO, like Cornerstone Portfolio Research, is focused on the constantly changing economy, markets, and investment strategies that produce the best results in the future.

CHIEF INVESTMENT OFFICER

Why Is Your RIA More Marketable With an OCIO Onboard?

Every RIA faces the same question: who is responsible for making the investment decisions at your firm? Meanwhile, you may have clients asking who is managing their money while you are meeting with them and your other clients. These are very good questions, indeed.

The right OCIO for your firm should possess the credentials you need. They should inspire confidence in both your current clients and your prospective ones. An experienced professional with a CFA® designation and years of experience may be able to do so with little effort. People notice someone like that managing their assets.

This addresses one of the two key features that investors are seeking in a financial advisor: a high

level of expertise. The other one is trustworthiness. It can be very challenging to convince knowledgeable investors that one advisor can be an experienced professional in all three of the major financial disciplines: planning, investing, and risk management.

It is much easier to market an experienced team of professionals to clients and prospects if yours has the right credentials.

Takeaway: One important characteristic of an OCIO, like Cornerstone, is the willingness of the Chief Investment Officer to talk to prospective and current clients. This can add to the credibility of the firm and the confidence that investors have in the firm, which can promote a more stable client base.



How Will You Benefit From an OCIO That Provides Painless Transitions?

How fast should an OCIO want to make changes to your current clients' portfolios? Ideally, the OCIO would want to phase in changes gradually (with the possible exception of investments that represent excessive amounts of risk). This is why it can be awkward bringing on an OCIO that wants to make immediate and excessive changes to your clients' portfolios.

In fact, there are three potential problems that an overly hasty approach can create:

- 1. It may cause current clients to question the advice they were receiving before you brought on the OCIO.** If the new CIO wants to make too many changes too soon, that can diminish confidence rather than instilling it.
- 2. Some of the changes could produce realized gains and taxable events.** This is less of an issue for tax-deferred accounts (such as IRAs), but it can be a big issue for assets in taxable accounts.

- 3. Clients benefit when their assets are managed by a thoughtful OCIO like Cornerstone.** We manage portfolios by tailoring them toward your specific goals, circumstances, requirements, and tolerance for risk. An OCIO that is available during both the marketing and servicing phases of your relationships with prospects and clients can prove invaluable.

Takeaway: Rather than managing your clients' assets yourself, outsource the work to a firm like Cornerstone Portfolio Research. We are a team of experienced Chief Investment Officers providing investment expertise and services to independent Registered Investment Advisors. Our services are foundational for financial advisors who want to grow their firms without taking on the expense of a full-time Chief Investment Officer.



CORNERSTONE
PORTFOLIO RESEARCH

Learn more about Cornerstone's services for RIAs and independent registered representatives.

CORNERSTONE PORTFOLIO RESEARCH.
1881 Horseshoe Trl Chester Springs, PA 19425
484.631.3684