ADVISORY SERVICES – A BETTER OUTCOME

"Is the 60/40 portfolio dead?"

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We've seen many articles in recent months which have suggested so. For decades it has been the asset allocation of choice for investors, benefitting from the inverse correlation between stocks and bonds. Sticking to this standard format also encouraged **self-invested strategies**, mitigating the need for advisors. However 2022 changed the narrative, with portfolios that comprised of 60% stocks and 40% bonds losing an average of 17%, according to Blackrock.

The 2022 losses were compounded for those retail investors who practice direct stock picking. JP Morgan released data showing that personal stock portfolios in the US **fell 44%** between early January and October, with stock selections hit hard by rising interest rates and a gloomy economic outlook.

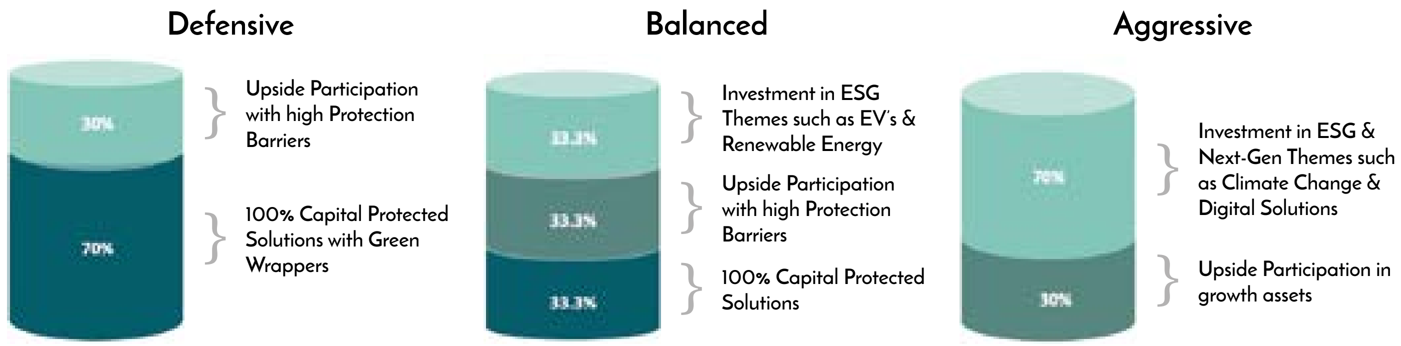
The Growth of Retail Traders

The ease with which investors can manage their own portfolios has accelerated in recent years. Retail investors share of total equity trading volume approached **25% at the end of 2021**, up from 20% in 2020 and 10-15% in the preceding decade (BNY Mellon). Buoyed by the 2020-21 market recovery, novice and seasoned traders poured money into growth stocks, and were subsequently stung during 2022. Is this change a threat, opportunity, or both?

With many investors licking their wounds, there is a chance that the recent performance of the 60/40 and personal stock portfolios will have wider ramifications. Potentially acting as a catalyst for another growing market.

Advisory Services

The global financial advisory services industry was pegged at approximately $80 billion in 2020, and is expected to reach **$135 billion by 2030**, growing at a CAGR of 5.8%. The constant increase in the global high-net-worth market and rise in demand for alternative investments has driven the demand for financial advisory services. And looking at the last few years, who would be surprised?



What is the Advisory Offer?

The **transition to advisory** is continuing across the industry, including at the largest private banks in the world. JP Morgan Asset & Wealth Management recently plugged the gap between their Brokerage & Discretionary accounts with an Advisory mandate for clients, driven by client demand and the fact that it is far easier to justify fees when demonstrable, professional advice has been provided.

Professional advice is especially important for **alternative assets**, where there is increased complication and liquidity constraints. Advisory services for these assets require high levels of ownership and agility, and it is questionable whether private banks can meet these requirements.

Independent Expertise

Providing advice can offer further value to investors when extended to the **full lifecycle of an investment product**. Whereas some alternative assets benefit from a buy and hold approach, the performance of others can be enhanced by live monitoring from experienced professionals. Investments in the capital markets are at the mercy of economic conditions, which can sometimes result in quick and violent movements. Considering how quickly the economic outlook changed at the beginning of 2022, it was no wonder investors struggled to stifle losses on vanilla assets.

When this happens, utilising experts is key. Not only do experts have the experience of similar market conditions, but they also know where the risks and opportunities lie, allowing them to make the necessary decisions to **improve an outcome**. Good advisors will always listen and understand investor concerns, advisors are here to listen, however at the end of the day, they are the experts.

Use us as your Experts

At ProFin Partners, we consider ourselves experts in designing structured products and derivative investments. When working with investors we take the approach of **fully understanding a portfolio**, not just the alternative allocation. By doing this, it allows us to correctly advise on the optimum solution parameters to meet a client's risk appetite, whilst identifying how best to present opportunities that may arise on the secondary market. The above graphic shows how different risk profiles can be built into portfolios of alternative assets.

We continuously add value for investors by showing good opportunities to sell, structuring switches to better performing underlying assets, and restructured poorly performing investments to limit capital loss whilst benefiting from market recoveries.

The growth of advisory services across the financial industry is sensible. When provided correctly, it is within the interests of the end investor and adds value and reassurance in an increasingly complicated environment. Within the alternatives space, we believe it is **paramount**.