

One RIA's unvarnished views on Advent, Black Diamond, Tamarac, IAS, Orion and Schwab PortfolioCenter after an odyssey of test drives

Benjamin Baldwin is making the jump from PortfolioCenter to Orion after a brief affair, and lingering love, for Black Diamond

By Nevin Freeman
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Nevin's Note: Choosing technology for an RIA practice is more than tricky. Reading every review published is a start, but advisors often end up test-driving everything out there for themselves, and even running multiple platforms in parallel for long periods of time to ensure the new software can actually deliver. Since the market has started to look up and advisor technology has continued to become better and more complex, many advisors are out looking for new software that is worth checking out. After Ben Baldwin e-mailed me about a broken link in one of our tech reviews, we got to talking about his search for a new portfolio management system. I caught him just before he actually made a decision, so I got a close-up of his thought process.

After a good deal of research and a false start with Black Diamond Performance Reporting, Benjamin Baldwin, principal of Responsive Financial Group, Inc. of Rolling Meadows, Ill., says he's signing on with Orion Advisor Services.

Baldwin says he made the choice because it's run by geeks who are hungry to innovate and optimize, as demonstrated by the platform's recent 60-fold speed increase in report generation.

Baldwin – an ex-Navy man, history major, third-generation financial advisor – went independent with one client in 1999 using Text Library System for CRM, Lotus Notes for e-mail, and a then-pricey \$3000 scanner to run a paperless practice.

In 2003, Baldwin realized that he couldn't keep up with the regulatory requirements for his 15 clients and 12 retirement plans. The tech boom had gone

bust, so Baldwin, who hadn't bought into the bubble and wasn't suffering much, bought out another firm whose value had shrunk as quickly as it had grown during the boom. With it came Schwab PortfolioCenter, some new clients, one full-time staffer and a part-timer. Baldwin charged ahead with the addition of CRM Software's Junxure, fed by his trusty scanner.



Benjamin Baldwin: I did my August monthly statements for my clients, had them up on the website by the first week of the month, and they were already completely out of date!

Since then, Baldwin has grown his firm three-and-a-half times over, taking its AUM, mostly held with Schwab Advisor Services, from \$18 to \$70 million, and ending up with three full-time employees in addition to himself. Baldwin says he's systematically trained them to do everything the business needs without him, but allows that he's still the main brain behind the trajectory of the firm and the investing strategy for its clients. "It's part of my emergency recovery plan," Baldwin says.

Along the way, Baldwin started using eMoney for financial planning. Like most advisors on PortfolioCenter, he says he runs monthly reports because it is too time consuming to produce them daily.

LAGGING INVESTMENT INTELLIGENCE

In 2008 he decided the month-long report cycle was unacceptable.

Matt Abar: You can be GIPS-compliant and also be inaccurate.



“I did my August monthly statements for my clients, had them up on the website by the first week of the month, and they were already completely out of date!” Baldwin laughs. “They weren’t even close to what my clients had, and same thing again in September that year. I couldn’t view my funds and my securities – and more importantly my models and groups of models of investments – fast enough to keep up with the declines in the market. My investment intelligence was really inadequate.”

So in 2009, right after the bottom of the 2008 financial meltdown, Baldwin started implementing Black Diamond in order to modernize his reporting.

It didn’t last long, though.

“We were finding performance numbers calculated inaccurately,” Baldwin says. After finding one-too-many inaccuracies, his firm decided Black Diamond wasn’t worth it. “We were running dual, so we stayed with PortfolioCenter.”

When I asked Baldwin for an example of the inaccuracies he found with Black Diamond, he said that the numbers produced by the system for the S&P index did not jibe the stats published by Standard and Poor’s the same day. He added that, to his knowledge, all of the inaccuracies he found have since been fixed.

ON HOLD

Soon after, Baldwin’s search for the perfect platform went on hold when his practice’s emergency recovery plan was put to the test under the worst of circumstances. Later in 2009, his wife was diagnosed with lung cancer.

Baldwin wasn’t in the office much after that. He and his three daughters

stayed close to his wife until she died in June 2010. Baldwin’s three employees kept the practice running with his help from afar.

In January of this year, Baldwin was ready to get back to business. He says that a lot had changed in the tech world since 2003, and even since he’d last looked in 2009.

“I feel like I went under water and came back up,” Baldwin says. “Web-based apps are faster than when I left. I stayed with all desktop apps in those days because they were so much faster. The application has to be able to keep up with the speed of a conversation on the telephone.”

“HTML5 and bunches of other things that have been developed by Google and others have made the web much, much faster,” he adds.

THE NEED FOR SPEED

Baldwin stressed the importance of speed – a quantity we don’t often get to in our reviews because it takes using the software for a while to really judge – and told me about a technique called “stored performance.”

GIPS [Global Investment Performance Standards]-compliant reporting involves calculating the performance interval for each security held for every day since the origination of the account. Stored performance is when a report generation system keeps track of the numbers it’s crunched before, so that it doesn’t have to crunch them again.

This is what’s responsible for Orion’s recent massive speed-up. Reports that used to take 10-30 seconds to generate now pop up in less a second, according to Baldwin.

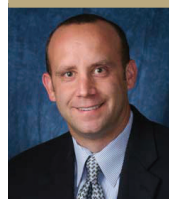
SUBTLE DIFFERENCES

At first I thought stored performance was a simple concept – either you have it or you don’t. But it turns out that although almost every performance reporting system has some version of this, they all work in slightly different ways. This subtlety explains why there can actually be discrepancies in how data are turned into reports – there’s no single right way to do it, and so different systems can legitimately come up with different numbers.

“You can be GIPS-compliant and also be inaccurate,” says Matt Abar, CEO of FinFolio.

Abar explained to me that calculating performance involves some complex math that has to be simplified in order to be run on computers, and that there’s technically no method for approximation that is better than other methods in all cases. The GIPS standard sets some minimum bars, but the developers that make performance reporting software often try to do better.

Because of this complexity, Orion’s speedup took much longer than the company expected, according to its president, Eric Clarke. He says it was tricky to balance speed, flexibility, and accuracy. “[T]his forced us back to the drawing board a few times,” he says.



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Clarke echoed what Baldwin told me about Orion’s continual development. “It improved our ability to create performance reports quickly, but we are not finished with our innovations in this area and most likely never will be. We are constantly spending our development

time and energy on making our system run faster and faster for our advisors.”

TIME-WEIGHTED RATE OF RETURN

Abar says the important thing for advisors to know when surveying these reporting systems is that the time-weighted rate of return is the trickiest part, and so it's worth understanding the details of how a vendor handles it.

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smaller than this won't be part of the performance calculation.

Dave Welling, chief solutions officer for Black Diamond, stressed the same point. “Interval-based methodologies common in other industry software applications typically set cash flow thresholds at 10%, which means flows in or out of an account less than 10% are not factored into performance,” he says. “This means advisors with clients that are in a de-accumulation phase of their lives are probably understating performance.”

“Black Diamond adjusts for every cash flow that occurs within the account,” he adds.

WEIGHING ALTERNATIVES

Last week, Baldwin was choosing between Black Diamond, Orion, Tamarac, and Interactive Advisory Software. He looked at Advent's offerings last time around and says he decided that, after possible custom implementation costs, the pricing was too unpredictable for him in the long-term. He also said that when he looked at APX, he got the impression that the reports were bland, calling them “black and white.”

It turns out Advent agreed with him. “A year ago we did not have the reporting firepower that we have today,” says Chris Flynn, vice president of product management for the investment management group at Advent Software. He says that Advent decided to use a third-party reporting engine called SQL Server Reporting Services, which is a major upgrade as far as presentation goes from the old system.

“What we were missing were really

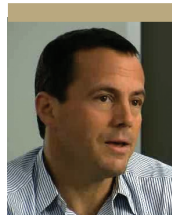
the aesthetics, and the aesthetics is what we've been focused on,” he says. Flynn also added that the new system has made it easier for advisors to create their own custom reports.

In the end, Baldwin decided that Black Diamond was too flashy, Tamarac, too do-it-yourself, and IAS, too bundled.

“Black Diamond is that hot bikini going down the beach with long blonde hair, and you come around the corner and say ‘whoa!’ And Orion is exactly the opposite; pretty tame looking, not too exciting, but man, everything is right, and everything is very well-done,” says Baldwin.

In comparison, he says, Tamarac is on par or a close second to Black Diamond in its reporting functionality, and seems superior in operational support, but is still not as “functionally deep” as Orion.

“[The SEC] wants data usually in a specific format, and they request specific types of reports,” says Baldwin. “With Orion, it's ‘e-mail us or fax us the letter and we'll produce and overnight the reports in X time frame, no extra charge.’ With Tamarac, it's ‘you can produce any reports they require.’”



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FLEXIBILITY AND EFFICIENCY

Matt Stroh, vice president of marketing for Tamarac, says the firm has found the do-it-yourself method more useful.

“With Tamarac, you can customize your reports in minutes, and with the click of a button, the Tamarac system will generate custom PDF reports for each client, place a link to download the report in each client's online portal,

Matt Stroh: From what we've seen, most advisors want this type of flexibility and efficiency.



and inform the client via email that the report is available in his or her online document vault," he says.

"From what we've seen, most advisors want this type of flexibility and efficiency. While there are still those clients that would like a printed version mailed to them, there are a growing number of clients that are willing to go paperless and this functionality delivers greater efficiencies to those advisors that service them."

Likewise, Baldwin says IAS is hands-down the best in financial-planning, but only comes as a bundled package, and is not the best in the other categories. "Their planning engine is phenomenal, and their integration with CRM is beautiful," he says. "But their performance reporting used to be just absolutely crayons and rulers, and now it's about like the old PortfolioCenter. Portfolio management they just can't keep up with."

Greg Brown, senior vice president of sales and marketing for IAS, says they are actually well on their way to keeping up.

"Our performance reporting was based on early web technology reducing our selection for report options," he allows. "This has recently changed. We are releasing our new report engine in June at our Annual User Conference. Reports 360 [the product name] will allow creating, or customizing current reports. This should put that issue to rest."

Baldwin explained to me that when IAS began their big integration about

ten years ago, the only way to have applications share data was to keep it all in one database. He says that this isn't necessarily the case today, but that he thinks the folks at IAS are still married to the single database philosophy since it was the best back then.

Indeed, Brown says that it's still the best. "The single database approach remains a more effective method over multiple disparate databases. Multiple databases can only share limited data elements," he says.

Brown adds that the single-database option allows advisors to cull their client data in ways that depend on info that would usually be separated in CRM and portfolio management systems. "For example: The advisor can easily find all households with term insurance policies expiring, CD's maturing, etc. Or allow them to access all households with exposure to a particular mutual fund that has experienced a recent manager change."

GANGBUSTERS COMBINATION

Baldwin wishes he could do more mixing and matching than is possible today. "Somebody like Northstar Financial Services (owner of Orion) should buy [IAS] and plug Orion in where their portfolio management, billing, and rebalancing systems work, and let the rest of IAS keep running the way it does," he says. "That would be a gangbusters combination!"

When Baldwin had his meeting with Orion, he recommended they take their report-generation revamp to the next level by turning them into HTML views that

could be viewed on-the-fly in the browser. Currently the only option is to generate a PDF that has to open in Adobe Reader.

At first, the team said they liked his idea but didn't see it on their roadmap within the next year. But Baldwin got a call the next week and found out that once the conversation had started with Orion's developers, they saw the value of his idea and decided to take it on right away.

Baldwin says the choice of a performance reporting vendor was difficult because he had to choose between a lot of great options, not the lesser of evils. In a recent conversation with his business coach, he decided the worst choice to make was to wait around. He says that any of these options would have been a huge improvement over his current setup.

Baldwin doesn't claim to be very scientific in his software search. He cares about things other than technical functionality, and tends to go with a gut feeling based largely on the sense he gets about the company's foundation and the people that run it.

Things move fast in this area of technology, so keeping an open mind is key, Baldwin says.

"You've got to be insecure, and uncertain, and really curious if you're going to stay bleeding-edge, you can't be confident and arrogant and think you're best-of-breed," he says. "These old companies have got to figure out: you're old and you've got a little bit of money; use it to start buying, funding, and experimenting with some of these people out there that have lots of energy, lots of ideas, lots of great skills and no money!"

Apparently the folks at Advent agree on this one, too.

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