

# In Today's Fee War, Financial Advisors Win



Charles Schwab & Co. started the finance industry's free trading party when it announced that it will eliminate commissions for online trading of U.S. stocks, effective Monday, October 7.

TD Ameritrade clapped back just hours later, announcing zero commission trading. ETrade and Fidelity also followed suit.

For financial advisors and their clients who have previously been unable to take advantage of direct indexing and custom SMA portfolios, this is huge.

Every client deserves a personalized portfolio, with their individual risk tolerances, tax sensitivities, and ESG considerations taken into account. But historically, there have been two massive roadblocks to creating custom, direct indexed SMA portfolios and capitalizing on tax-loss harvesting and capital gains deferral opportunities through direct indexing.

## 1. The Move to Zero-Fee Trading

The first major roadblock has been the high costs associated with trading equities.

With the move to \$0 transaction costs, advisors can build and manage SMA portfolios without passing on additional trading costs to their clients or absorbing the costs themselves. For both advisors and their clients, that creates a number of benefits, most notably the ability to inexpensively tax-loss harvest, which involves harvesting stock losses to offset capital gains elsewhere.

How big is the impact?

If Orion estimates a total of **\$1.897B** in unrealized losses across 67,000+ accounts, and 80% of the unrealized losses are realized, with optimizations run on a quarterly basis to realize these losses, savings in trading fees can exceed **\$108M** annually in aggregate across Orion clients who custody with one of these brokers\*.

“Price should never be a barrier to investing for anyone, whether an experienced investor or someone just starting on the investing path,” said Schwab President and Chief Executive, Walt Bettinger\*\*.

Previously, advisors with concerns about transaction costs may have chosen to delay or even avoid tax-loss harvesting opportunities. Now, even smaller accounts can take advantage of tax alpha via direct indexing—without fearing cost implications.

## 2. A Streamlined Approach to Direct Indexing

The second roadblock to creating custom, tax-advantaged portfolios for every client was the massive time commitment involved in the traditional direct indexing process: a cumbersome workflow using multiple spreadsheets to review voluminous data and complex variables.

But when we fused ASTRO, our custom SMA optimizer, with Eclipse™, our tax-intelligent rebalancer, we opened the door for advisors to offer direct indexing to their entire book of business by streamlining a previously unwieldy, inefficient process into a single platform.

From there, financial advisors can direct index pre-defined models — customized for individual client requirements — and execute all trades, resulting in greater data security, more efficient back-office operations, and increased transparency.

Now that Schwab, TD Ameritrade, and others have dropped trading costs to \$0, the road to direct indexed, custom SMA portfolios is wide open. And that means better outcomes for clients, greater advisor alpha, and stronger advisor-client relationships overall.

The fee war, coupled with the fusion of ASTRO and Eclipse™, is revolutionizing the trading game for advisors. To learn more about how you can use ASTRO and Eclipse™ to take advantage of direct indexing and create custom SMA portfolios

for your clients, join our on-demand webinar here.

\*Assumes a \$400 cost per optimization pre-announcement and at least one of the following criteria: market value greater than \$400K, unrealized gains more than 50% of market value, and unrealized losses greater than 25% of market value.

\*\*<https://www.investmentnews.com/article/20191001/FREE/191009999/schwab-cuts-online-brokerage-fees-to-zero>

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