

# The Rise of Boutique Investment Managers: A Return to the Roots of Investing

## Introduction

Over the years, the investment management industry has undergone significant transformation, shaped by technological advancements, changing client expectations, and evolving market dynamics. From the early days of traditional stockbrokers to the current landscape dominated by large institutions and passive investing, the field has seen a shift in priorities. However, amidst this consolidation and commoditization of financial services, boutique investment managers are emerging as a compelling alternative—offering personalized, client-focused solutions that return investing to its roots.

This white paper explores the evolution of the investment management industry, highlights the challenges created by large institutional players, and examines why boutique firms are poised to thrive in this environment. We also provide guidance on conducting due diligence when evaluating a boutique firm you're considering partnering with.

## Evolution of Investment Management: Key Milestones

### The 1990s: The Rise of Mutual Funds and Discount Brokerage

The 1990s marked a shift in how people approached investing. The rise of mutual funds democratized access to diverse investment opportunities, while financial planning became an increasingly important part of the wealth management process. During this time, the traditional stockbroker model—where brokers earned commissions on transactions—fell out of favor.

Discount brokerage firms like Charles Schwab, E-Trade, and Fidelity disrupted the industry by introducing “no transaction cost” models, making it easier and cheaper for investors to trade. These firms also promoted the idea that traditional financial advisors could not consistently outperform the S&P 500. This narrative fueled the growth of passive, index-based investing, reducing the prominence of active managers. At the time, mutual fund commissions ranged from 8% to 9%, further incentivizing the move toward “low-cost” solutions.

The growth in assets was driven by both fund performance and new investments. Fund performance, which includes unrealized asset appreciation, reinvested capital gains, and reinvested dividends, contributed to more than half of the increase in fund assets.

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<sup>1</sup> Flow of Funds Accounts of the United States, June 9, 2000, Board of Governors of the Federal Reserve System, Washington, DC. The broad advance of U.S. and international stock markets during the 1990s boosted equity fund performance, which alone accounted for three-fourths of the performance-related growth of fund assets. The remaining performance-related increase came primarily from reinvested dividend distributions in bond, hybrid, and money funds.

## The 2000s: ETFs and the Rise of Model Portfolios

The early 2000s saw the explosive growth of Exchange Traded Funds (ETFs) and the popularization of model portfolios. The fiduciary standard became a buzzword, requiring financial advisors to act in their clients' best interests. During this period, there was a clear separation between the roles of financial advisors and investment managers, with financial planners focusing on holistic advice while asset management was increasingly outsourced to third-party providers. The Certified Financial Planner (CFP) designation gained prominence, though regulatory oversight of this credential was limited. At the same time, the DIY investing movement gained momentum, amplified by media and advertising campaigns promoting self-directed, low-cost investment strategies.

## The 2010s: Post-Crisis Adaptations and the Independent Advisor Movement

The aftermath of the 2008 Great Financial Crisis shook the confidence of the DIY Investors. This placed significant pressure on financial advisors to integrate advanced technology and improve financial planning. For many, comprehensive financial plans became a sales tool designed to lead to the purchase of financial products, rather than a standalone service.

Seeking greater independence, many advisors left large firms to establish their own practices. Outsourcing asset management to third-party providers and leveraging model portfolios became the norm. However, these trends also diluted the personalization of investment strategies, as advisors relied more heavily on standardized solutions.

## The 2020s: Consolidation and the Conflicts of Institutional Dominance

Private equity firms took notice of the investment management industry's high profit margins during the 2020s, ushering in an era of consolidation. Many independent financial advisors were acquired by large conglomerates, which often prioritized proprietary products and specific investment managers to maximize payouts. This created potential conflicts of interest, as advisors were incentivized to push higher-margin products, sometimes at the expense of client outcomes.

As ETFs became more commoditized, a race to the bottom in terms of fees ensued. Large institutions increasingly promoted model portfolios as a means for financial advisors to charge higher advisory fees. However, this shift often came at the cost of personalization, tax efficiency, and other client-focused priorities.



Joe Ricketts, founder of TD Ameritrade. Advertisement, 2001 for Accutrade

In today's evolving financial landscape, boutique investment managers are reshaping the industry by focusing on the fundamentals of investment management rather than adopting a one-size-fits-all approach. These firms prioritize personalized service, transparency, and a deep alignment with their clients' goals, distinguishing themselves from larger, more traditional players.

However, not all boutique investment managers are created equal. The first and most important step is to carefully evaluate their expertise and approach to ensure they meet your specific needs.

## Is a Boutique Firm Right for You? Here's How to Decide

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**US Asset Owner Survey Results:** *Many asset owners find value in the GIPS standards. In a survey of US asset owners, 67% of survey respondents require or ask about GIPS compliance when selecting external managers.*

### 1. Understand the Firm's Philosophy and Strategy:

Review the firm's investment philosophy and ensure it aligns with your financial goals. Look into their approach to risk management and decision-making processes. The Form ADV is a crucial resource for gathering detailed information about a financial firm and its practices. Part 1 provides an overview of the firm's operations, including its ownership, clients, and any disciplinary history. Part 2 digs deeper into the firm's services, fees, investment strategies, and potential conflicts of interest. These forms are filed with the SEC or state regulators and can usually be accessed through <https://brokercheck.finra.org/>. Reviewing these documents ensures transparency and helps you determine if the firm's practices align with your financial goals and values.

### 2. Evaluate Performance and Track Record:

When assessing an investment firm, it's essential to examine their historical performance, considering both short- and long-term results. Pay close attention to how they've navigated both rising and falling markets. One of the most respected benchmarks for performance management is GIPS certification, offered by the CFA Institute. The Global Investment Performance Standards (GIPS) are a set of ethical guidelines designed to promote transparency and ensure the accurate representation of a firm's investment performance.

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<sup>2</sup> Learn more about the survey results here: [chromeextension://efaidnbmninnibpcajpcglclefindmkaj/https://www.gipsstandards.org/wp-content/uploads/2021/04/us\\_asset\\_owner\\_survey\\_report.pdf](chromeextension://efaidnbmninnibpcajpcglclefindmkaj/https://www.gipsstandards.org/wp-content/uploads/2021/04/us_asset_owner_survey_report.pdf).

## Understanding GIPS Performance

- A firm claiming GIPS compliance follows rigorous standards in performance reporting.
- GIPS compliance and GIPS-verified performance are not the same.
- GIPS verification involves an independent third-party review to confirm adherence to the standards.
- Verified performance adds credibility, ensuring accurate and trustworthy data.
- While GIPS compliance is voluntary, choosing firms with verified performance offers greater confidence in reporting integrity.
- GIPS verified firms can be found here: <https://compliancetracking.cfainstitute.org/gips-firm-list>

### 3. Review Transparency and Communication Practices:

Ensure the firm has clear reporting practices. They should provide regular updates and maintain open lines of communication with clients. Custodial statements and performance reports serve distinct purposes, and it's important for investors to understand how they differ. Custodial statements are provided by a third-party financial institution that holds the Rclient's assets. These statements offer an independent record of transactions, holdings, and balances, ensuring transparency and accountability. On the other hand, performance reports generated directly by the firm present an analysis of portfolio performance based on returns, fees, and other factors, often tailored to highlight the firm's strategy and results. today's evolving financial landscape, boutique investment managers are reshaping the industry by focusing on the fundamentals of investment management rather than adopting a one-size-fits-all approach. These firms prioritize personalized service, transparency, and a deep alignment with their clients' goals, distinguishing themselves from larger, more traditional players. However, not all boutique investment managers are created equal. The first and most important step is to carefully evaluate their expertise and approach to ensure they meet your specific needs.

### 4. Assess Client Focus:

Boutique firms prioritize personalized service, so evaluate their approach to client relationships. Check how accessible and responsive they are to individual needs. Many boutique wealth management firms focus on specific strategies, from conservative investing for retirees to aggressive hedge fund investing. Often, boutique firms cater primarily to institutional and accredited investors.

#### Growing demand for human advice:

McKinsey's Affluent and High-Net-Worth Consumer Survey shows clients increasingly value holistic advice as their needs grow more complex.

- The percentage seeking such advice rose from 29% in 2018 to 52% in 2023. Additionally, nearly 80% of affluent households would prefer to pay a premium (50 basis points or more) for human advice over lower-cost digital services.
- Among investors with more than \$1 million in assets, those willing to pay a premium of 100 basis points or more increased by 50% from 2021 to 2023.

Learn more about the survey results here: <https://www.mckinsey.com/industries/financial-services/our-insights/us-wealth-management-amid-market-turbulence-an-industry-converges>

## 5. Check Regulatory Compliance and

**Reputation:** Verify that the firm adheres to regulatory standards and has no history of compliance issues, which can be found in ADV part 2 mentioned above. Custodial statements and performance reports serve distinct purposes, and it's important for investors to understand how they differ. Custodial statements are provided by a third-party financial institution that holds the client's assets. These statements offer an independent record of transactions, holdings, and balances, ensuring transparency and accountability. On the other hand, performance reports generated directly by the firm present an analysis of portfolio performance based on returns, fees, and other factors, often tailored to highlight the firm's strategy and results.

## Summary

The investment management industry has come full circle, from the dominance of traditional brokers to the rise of passive investing and institutional consolidation. While these changes have brought convenience and lower costs, they have also introduced challenges such as conflicts of interest, reduced personalization, and a focus on scale over service.

Boutique investment managers offer a compelling alternative by embracing the core principles of investing—personalization, trust, and alignment with client goals. As investors increasingly seek tailored solutions and meaningful relationships, boutique firms are well-positioned to meet these needs and return investing to its roots.

Despite the dominance of larger firms, boutique investment managers stand out by prioritizing personalization, trust, and alignment with client goals. These qualities address the growing demand for tailored solutions and meaningful client relationships, bringing investing back to its core principles.

## Due Diligence Checklist



1. Understand the Firm's Philosophy and Strategy



2. Evaluate Performance and Track Record



3. Review Transparency and Communication Practices



4. Assess Client Focus



5. Check Regulatory Compliance and Reputation



## Disclosures

Investing involves risk of loss. Please review strategy descriptions and investment risks set forth in the Schedule F of Fortis Portfolio Solution's Form ADV2 located in the Fortis Documents section of this website. No guarantee can be made as to performance results. No guarantee can be made as to curtailing tax liabilities and Clients should look to their separate tax advisor for tax advice.

### Investment Risks

Clients should invest with a long-term time frame and understand that no one can guarantee investment results. Investing in the securities markets entails the risk of loss. In all events, each account is assigned general investment percentage goals/guidelines and an investment strategy, both of which may change from time to time upon direction from the Client. The Client understands these goals/guidelines are approximate and the actual amount invested in each asset class may vary considerably depending on Management's assessment of market risk and the specific investment strategy chosen by the Client. At times, Fortis Portfolio Solutions may choose to invest accounts, including accounts which have assets with Fortis Portfolio Solutions determines in its sole discretion, that under present market conditions so doing would be in the reasonable best interests of the portfolio. Fortis Portfolio Solutions may employ defensive investment strategies notwithstanding Clients' investment strategies and restrictions. Clients should understand that Dynamic investment strategy approaches come with the risk of loss. Tax Sensitive strategies are not concerned with overall market risks, staying invested even during bear markets. While Dynamic strategies aim to reduce exposure prior to bear markets, no guarantee can be made as to success. No guarantee can be made as to curtailing tax liabilities and Clients should look to their separate tax advisor for tax advice.

### Financial Planning

Fortis provides general financial planning and in-depth retirement planning services to Clients that specifically engage Fortis for that service. The planning can include defining goals, designing a plan, assisting with implementing the plan, and evaluating and adjusting the plan over time, at the request of the client. The financial planning includes advice regarding securities investing, and may include discussions of a client's tax, insurance, employee benefits, estate planning and other issues. Fortis, however, does not provide legal, insurance, employee benefit, estate planning, tax or accounting advice, and the client must rely on legal, insurance and accounting professionals for that advice and documentation