Prospecting With Kwanti

Step 1 : Analyze

Every client starts as a prospect. Kwanti simplifies the process of converting a prospect to a client. Portfolios that reside on a prospect's paper statement can be easily imported into Kwanti by manually adding positions or uploading a .csv file. The portfolio positions, allocation, and breakdowns immediately come to life as dynamic visuals in the tool. This feature has the advantage of building portfolio scenarios in real-time, and actively involving the prospect in their own investment process by illustrating:

- Funds expenses
- Allocation
- Risk and Diversification
- Equity analysis
- Fixed income analysis

With each step, the advisor increases the prospect's understanding of the portfolio changes that will be recommended in the proposal.

Fund expenses

High fees cause a drag on portfolio return. This topic is an excellent way to start the analysis of the prospect's portfolio because it is easily explained.

If the prospect's portfolio contains funds with high fees, they are exposed in a fee expense chart. These funds are prime candidates for replacement.
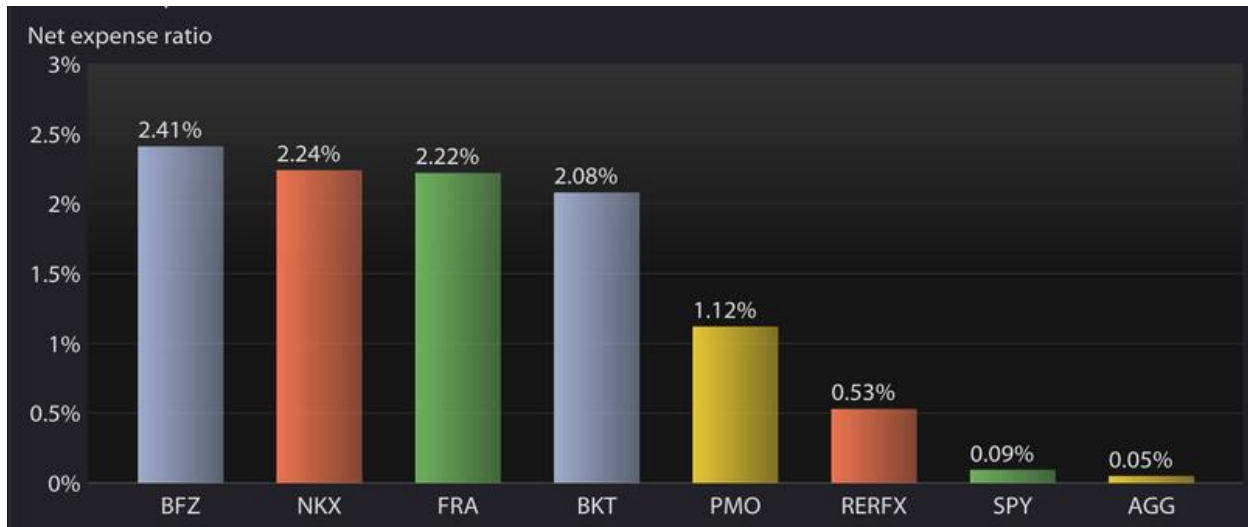
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Asset Allocation

Kwanti automatically looks through each fund's holdings to calculate the portfolio asset allocation. This approach is preferable to attaching each fund to an asset class or category because it is common for funds to be mislabeled, or categorized too broadly. Also, blended funds do not properly fit any predefined asset class.

With look-through allocation, the advisor has additional insights into the portfolio and its constituents.
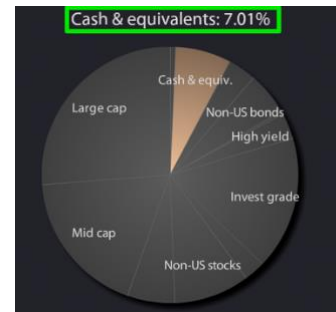
For example, mutual funds may hold a substantial amount of cash. In the example below, a portfolio has a 1.8% position in cash. However the look-through analysis exposes a total cash allocation closer to 7%, when considering the cash held inside the mutual funds. By educating the prospect about the true breakdown of their investment, the advisor can additionally build trust and confidence.

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Breakdown: Cash & equivalents

Symbol	% of portfolio Cash & equivalents	% Cash & equivalents
$CASH	26.26	100.00
TEGBX	23.56	36.73
SMCWX	17.71	10.54
ICSBX	14.10	7.61
OAKBX	7.40	6.71
PPUMX	3.80	1.44
OHYFX	2.40	5.06

Risk

Portfolio risk and diversification are two of the most important investment traits that an advisor should communicate to a prospect. While Kwanti supports hundreds of drill-down features for individual advisor use, the tool simplifies the communication of bottom line risk and diversification to clients. By using the Risk Contribution feature, the advisor can identify areas of the portfolio that need to be addressed.

For example, a prospect will want to know why some of the positions make up the majority of the risk. By looking into these targets the advisor can explain how the contribution to risk is driven by key factors such as:

Symbol	Contribution to Portfolio Risk
DMCVX	30.3%
PPUMX	25.2%
SMCWX	16.3%
SASMX	13%
OAKBX	7.5%
TWEIX	4.1%
SIEMX	1.9%
OHYFX	1.4%
TEGBX	0.3%
ICSBX	0.2%
PAMIX	0%
$CASH	0%

- High correlation among positions
- Over weighted position
- High-risk position

In addition, the advisor can use the Stress Test feature to demonstrate how a prospect's portfolio would have performed during massive market changes such as the sub-prime crisis in 2008 and the dotcom bubble in 2000. The advisor can also create custom scenarios to stress test a prospect's portfolio.

Stress test — Risk allocation

Return — Prospect Portfolio

Crisis	Return
Asian crisis	-5.35%
Russia/LTCM	-13.21%
Tech bubble	-7.87%
WTC attack	-8.6%
Subprime crisis	-25.46%
2018 Pullback	-11.2%

The stress test feature is also useful to highlight long-term risk. Hence if a prospect is nearing retirement and requires regular withdrawals the stress

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test can provide feedback on risk by using past examples of large drawdowns in the market.

Diversification

Diversification offsets the risk that comes with putting too many eggs in the same basket. A prospect would need to understand that picking a broad variety of assets does not necessarily make a diverse portfolio. This is where the Correlation Table comes in handy. By viewing the historical correlation over decades between assets, the advisor can highlight the overlap and redundancy in the portfolio

For example, if a prospect's portfolio has multiple positions with red boxes showing correlations of 0.9 or above, it highlights that those assets are very closely linked. In effect, this decreases the diversification of the portfolio and increases risk. The advisor can identify those "closet indexes" with very high correlations and replace those assets with alternatives that increase portfolio diversification and decrease risk.

Performance	Allocation	Expenses	Yield	Correlations	Risk						

○ Internal ● To indexes   Clear

Symbol	DMCVX	ICSBX	OAKBX	OHYFX	PAMIX	PPUMX	SASMX	SIEMX	SMCWX	TEGBX	TWEIX
DMCVX	1										
ICSBX	0.20	1									
OAKBX	0.96	0.22	1								
OHYFX	0.82	0.46	0.82	1							
PAMIX	-0.17	0.37	-0.17	0.05	1						
PPUMX	0.88	0.21	0.89	0.78	-0.11	1					
SASMX	0.86	0.22	0.81	0.71	-0.05	0.87	1				
SIEMX	0.69	0.41	0.75	0.69	0.05	0.71	0.51	1			
SMCWX	0.92	0.29	0.89	0.80	-0.02	0.95	0.93	0.73	1		
TEGBX	0.26	0.06	0.35	0.36	-0.06	0.14	-0.04	0.41	0.11	1	
TWEIX	0.89	0.17	0.92	0.75	-0.05	0.84	0.75	0.66	0.84	0.37	1

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Equity Analysis

Often a prospect will want to know how their equity funds compare to a Standard Index such as the S&P 500, or how it performs by investment sector and region. A prospect could also favor investments in a particular market segment or in certain countries. The advisor can conduct a quick equity analysis against an Index or a model portfolio to identify over or under exposure by asset class, sector and region.
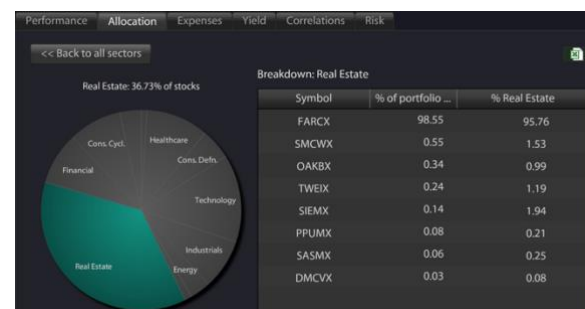
Model portfolios also reside in Kwanti to represent the advisor or advisory firm's investment belief. For example, when comparing a prospect's portfolio side by side with a model portfolio, the advisor can flag a large divergence in a particular sector, such as the Cyclical sector.

Knowing that Cyclical assets are significantly impacted by economic shifts, the advisor can drill down to see what aspect of this sector is most affected. In the example below, this sector is Real Estate.

	Prospect Portfolio	Model Portfolio	
Basic Materials	3.49	9.41	+5.92
Consumer Cyclical	8.58	11.11	+2.53
Financial Services	8.44	15.76	+7.32
Real Estate	36.73	9.46	-27.27
Communication Services	1.13	3.14	+2.01
Energy	3.35	4.86	+1.52
Industrials	8.14	10.53	+2.39
Technology	14.18	16.32	+2.14
Consumer Defensive	4.97	6.21	+1.24
Healthcare	10.10	10.11	+0.02
Utilities	0.90	3.09	+2.18
Not classified	< 0.01	-	-0.00
	100.00	100.00	

	Prospect Portfolio	Model Portfolio	
Cyclical	57.24	45.74	-11.50
Sensitive	26.79	34.85	+8.06
Defensive	15.97	19.41	+3.44
Not classified	< 0.01	-	-0.00
	100.00	100.00	

The advisor can then drill down to further reveal the positions that contribute the most to real estate. If a cyclical downturn is expected in real estate, it helps a prospect gauge their over-exposure and hence increased risk.

Symbol	% of portfolio ...	% Real Estate
FARCX	98.55	95.76
SMCWX	0.55	1.53
OAKBX	0.34	0.99
TWEIX	0.24	1.19
SIEMX	0.14	1.94
PPUMX	0.08	0.21
SASMX	0.06	0.25
DMCVX	0.03	0.08

Breakdown: Real Estate

Real Estate: 36.73% of stocks

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Fixed Income Analysis

In a manner similar to equity analysis, a prospect wants to understand their investment risk in fixed income or bonds. Duration and credit quality describe a bond style, and together they represent the two most important risk factors for bonds. The advisor can conduct a quick bond analysis to measure the average duration and credit quality.
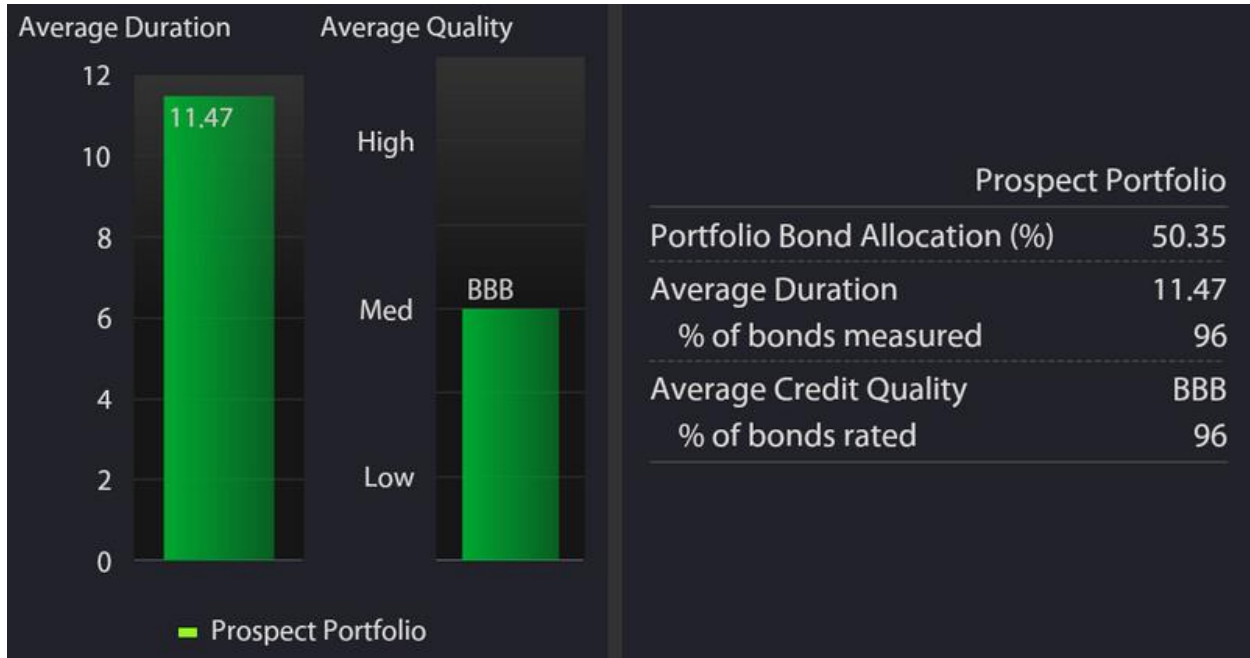
For example, if the bond analysis of a prospect's portfolio highlights a longer than average duration, the advisor can point out that the investment may be sensitive to higher interest rates. The advisor can then drill down to highlight those bonds with the longest duration.

Symbol	Duration	% of portfolio bonds	Weight factor
TLT	17.32	58.21	0.60
OHYFX	4.17	4.37	0.05
PAMIX	4.10	12.75	0.13
ICSBX	1.87	17.00	0.18
TEGBX	-1.60	3.90	0.04
OAKBX	-	3.36	-
SMCWX	-	0.04	-
TWEIX	-	0.37	-

<< Back to chart   Average Duration = 11.47, 96% of bonds measured

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Step 2: Compare

The next step is to compare the prospect existing portfolio with a model selected to match the prospect's financial planning goals. Depending on the advisor's firm policy, the model may be:

- Built by the advisor
- Imported from the firm's model library
- Imported from a third-party

With this flexibility, it is straightforward to select the right model and contrast it with the prospect's portfolio.

	Prospect Portfolio	Model Portfolio
		Mar 28, 2014 - Mar 27, 2019
Total return	29.8%	43.34%
Annualized total return	5.35%	7.46%
Max drawdown	-16%	-15.9%
duration (days)	233	332
recovery (days)	301	-
Current yield	1.05% 🔍	2.08% 🔍
Risk (standard deviation)	8.8%	9.3%
Sharpe ratio	0.55	0.71
Sortino ratio	0.89	1.21
Alpha *	-2.88%	-1.49%
Beta *	0.93	0.97
Information ratio *	-0.31	-0.13
Up capture ratio *	0.82	0.93
Down capture ratio *	1.05	1.08
(*) using benchmark:	Blend US 80% stocks 20% bonds ✏️	

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This is an opportunity to showcase a prospect's portfolio using real-world data on a tablet, laptop, web conference or projected screen.
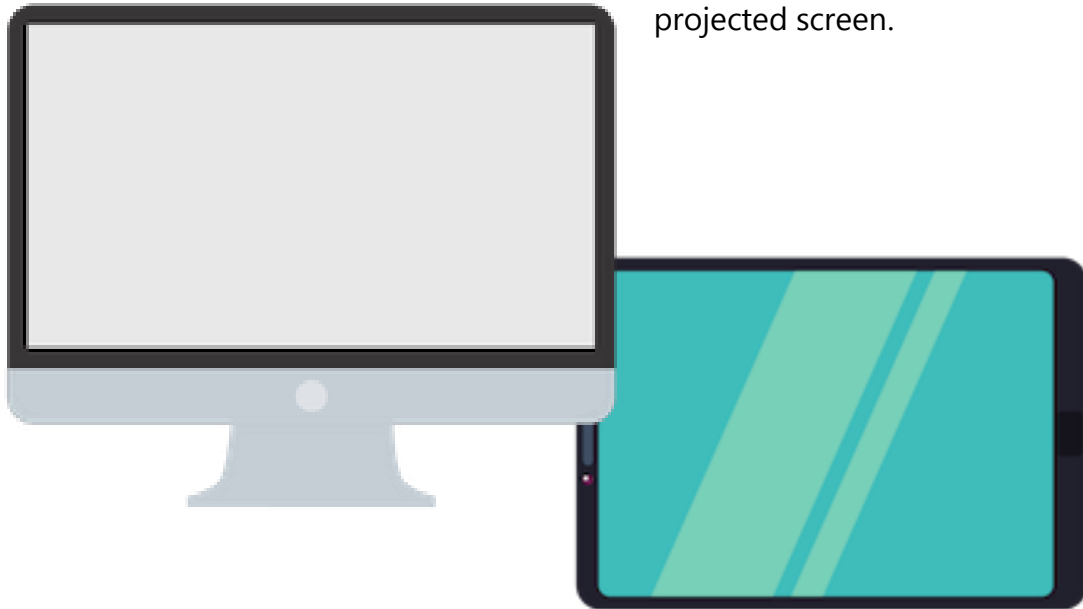
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Step 3: Present

The final step is to generate and present a comprehensive and beautifully formatted report to a prospect including all tables and graphs. Kwanti supports fully customizable PDF reporting which is linked to the software. The advisor can make changes directly on the PDF and those edits will be saved in the advisor's Kwanti account as well as in the printed report received by the prospect.

By using Kwanti's 3 step methodology advisors can add structure, predictability and scalability to the prospecting process.

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How Current Advisors Use Kwanti for Prospecting

Lloyd Easters
Chief Investment Officer
Jarred Bunch

"From the start, Kwanti is simple and easy to use. All we have to do is plug our portfolios into Kwanti and then upload a prospect's positions for a side by side comparison," Easters says. "We immediately get the value of the portfolio with key stats right there on the screen such as allocations, drawdowns, recovery periods and more. It helps that Kwanti is just one system that is very powerful visually on the back end, which we use to showcase our recommendations into an easily presentable format."

Easters notes that Kwanti is key in prospect meetings in order to close business. **"We can show changes on the fly rightin front of a prospect** or print it out in a customizable way. Our process is to sit in front of clients and prospects with Kwanti open – it is very visual and investors like to see pictures so that they understand what is involved and they can then make informed decisions."

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