Model Portfolio Overview – Study Notes

Advisor accounts using Model Portfolios can create theme-based investment strategies and invest client accounts directly into them.

A model portfolio is an advisor-constructed group of financial instruments that the advisor funds and trades on behalf of clients. Model portfolios can be an efficient, time-saving tool that facilitates a more organized approach to investing client assets. Models allow advisors to create groupings of financial instruments based on specific investment themes, and invest client funds into the model, rather than taking time to invest in a single instrument.

The advisor can establish target percentage allocations and rebalance as desired using this technology. A model portfolio can invest across equities and fixed income products.

The advisor can establish the target percentage allocations or keep them dynamic, investing a portion of clients' funds into the portfolio and then simply trade the model's assets. Trades made in the Model Portfolio are automatically allocated among the invested clients' accounts.

Create a Model Portfolio

- Click the Classic TWS tab.
- From the portfolio tab, by selecting ALL from the dropdown menu you can see several accounts. The Advisor or Master account uses the DF prefix.
- The DU prefix indicates client accounts, and in this example, the accounts have differing amounts of available equity.

DF = Master
DU = Sub-Account
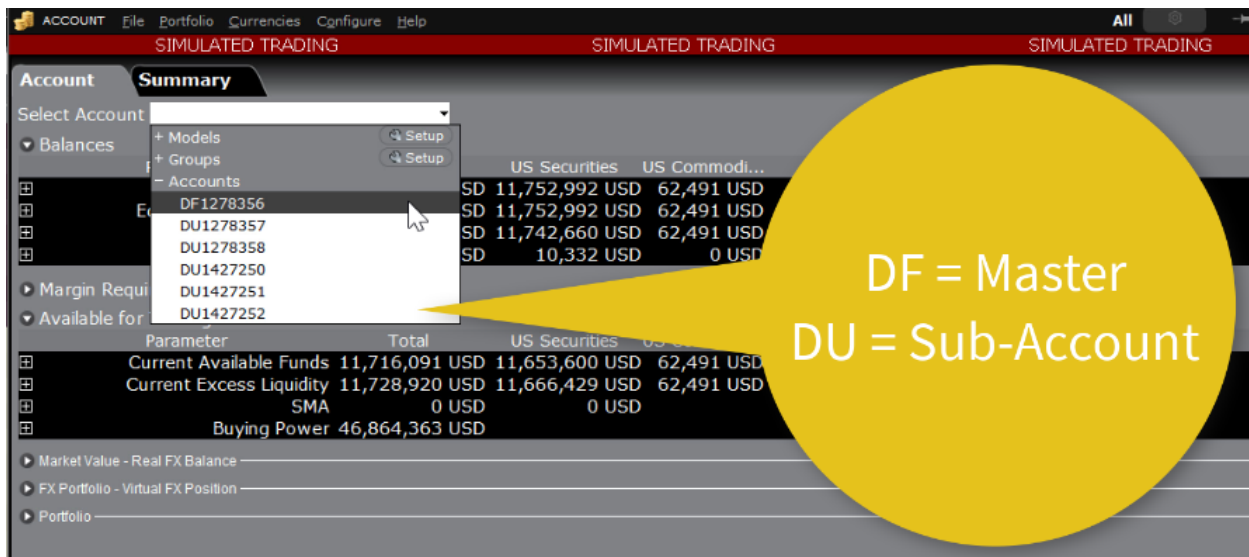
- Positions may be in cash or a variety of asset classes. Positions not allocated to advisor created models are referred to as Independent positions.

In order to create Model Portfolios and invest client funds in them, Advisors must have the functionality enabled by calling IBKR Financial Advisor Services.

The function is only available using Classic TWS although all Paper Accounts automatically have Model Portfolio functionality enabled.

- Clients will need to ensure that they can view the Portfolio tab. To do this, right-click on the '+' sign, select Portfolio.
- Access the display selector to access Models, Groups and Accounts.
- To create a Model open the Portfolio tab in Classic TWS and access the Display Selector to view Models, Groups and Accounts. Next to Models, click on the Setup icon.
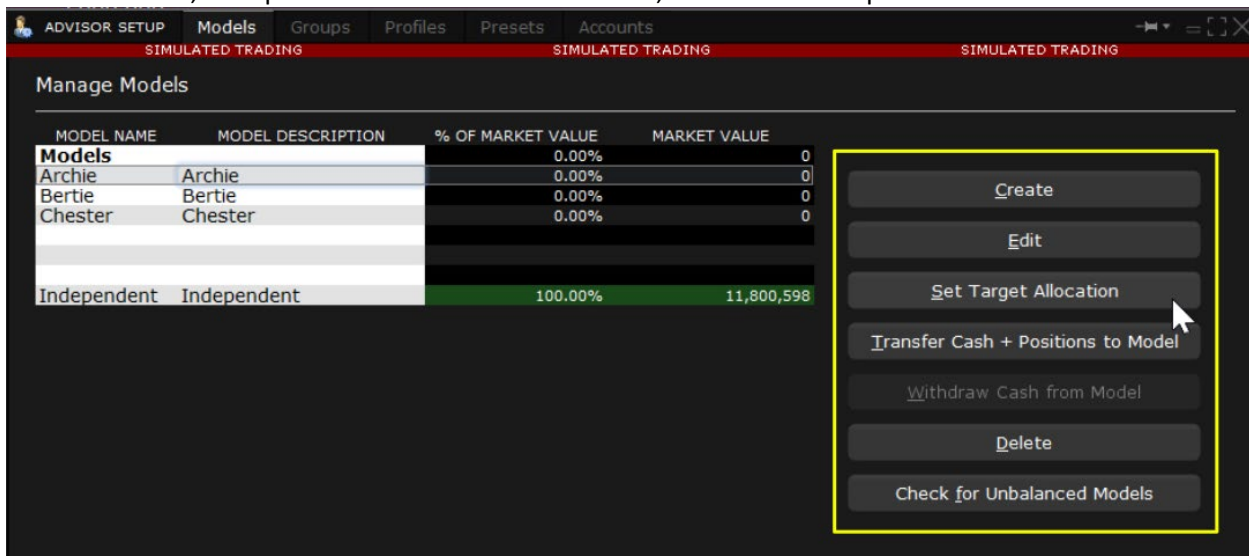
- You will notice under the Create Model button to the right several buttons are greyed out, until we have created a model and selected it in order to set allocations or transfer cash and positions.
- Click Create Model and name your model.

Note that the Model Code, which is used for reporting purposes, cannot be changed, although the Model Name may be.

- Let's click Create Model again and create a second model using a different name.
- Click on the first Model to the left to highlight the row.
- Now several buttons to the right have become active.
- To add a set of tickers to this particular model, click the button to Set Target Allocations. This will open the Rebalance Model window.

- Below Total Cash, start entering the desired ticker symbols. Enter a value under the Target% column to weight the model holdings.
- For short positions, enter a negative value if desired. Continue adding tickers and weights and when satisfied, click the Save Targets button, which will also force a value to the Total Cash row such that the Total line at the top has a Target reading of 100%.
- From the Select Account dropdown menu, repeat these steps for the second model. When you have entered the desired tickers and weightings, click the Save Targets button.
- Exit the Rebalance Model window.

Investing in Models

- From the display selector, choose All, which may be accesses from the Group's expansion button if not already displayed.
- To the right select My Positions by Model.
- Since there are no holdings or Model positions, only total cash is displayed.
- Next, click on the Reallocate button with the blue swirl to the upper right of the window.
- This reveals Target% and Target Amount input fields next to each of the models we just created. This is for the overall account, since we selected ALL.

- As noted earlier, the positions are either in Models or described as Independent and so these two percentage and dollar values will sum to the full value of the account.

- Just as an example, if I enter Target allocations of 1% for these three Models, you will see that the top line models Target becomes 3% and the Independent line drops to 97%.
- Once again, this instruction is set to allocate across ALL accounts.

Reallocation for a Single Account

- Let's create an example reallocation for a single account.
- From the display selector choose a sub- account. Note that the DF account is the master account and I will choose one of the DU sub-accounts.
- Once again, click that Reallocate button with the blue swirl. Now enter values in either column for Target% or a dollar Target Amount per model.
- If I add 10% to one model and 5% to the other, my total Model investment changes to 15%. The Independent value, therefore drops to 85%, so that the two combined will equal 100%.

- Before clicking the red button to create orders, make any desired selections in the area below.
- For example, you may want to use non-base currency balances if they are available when entering overseas orders.
- And you may want to transfer positions from the Independent side to the Model side when they exist in order to avoid overweighting holdings.

- When ready click the red button to Create Reallocation Orders.

Financial Instrument	Bid	Ask	Investment value	Allocation	Cls Pos	Action	Quantity	Time in Force	Type	Lmt Price	Destina
USD CASH			193,273.28	DU1278357 Ind...		TRANSFER	193273.28 DAY				
USD CASH			96,636.64	DU1278357 Ind...		TRANSFER	96636.64 DAY				
AA	21.70	21.71	48,452.73	DU1278357-Ar...		BUY	2,223 DAY		LMT		SMART
AAPL	192.76	192.78	47,994.75	DU1278357-Ar...		BUY	249 DAY		LMT		SMART
ABC	85.85	85.88	48,126.90	DU1278357-Ar...		BUY	560 DAY		LMT		SMART
AMZN	1869.64	1870.32	48,620.78	DU1278357-Ar...		BUY	26 DAY		LMT		SMART
BA	346.78	346.89	19,419.46	DU1278357-Be...		BUY	56 DAY		LMT		SMART
BBBY	12.21	12.22	28,637.10	DU1278357-Be...		BUY	2,350 DAY		LMT		SMART
BG	57.73	57.75	38,910.17	DU1278357-Be...		BUY	673 DAY		LMT		SMART
BR	130.56	130.62	9,665.29	DU1278357-Be...		BUY	74 DAY		LMT		SMART

- Investment orders populate the window below.
- The Model Portfolio software automatically calculates the required number of shares to purchase to meet the target allocations.
- Note that the USD cash amounts are also being transferred into the Model. Users may select or deselect the Show transfers checkbox if they wish.
- Order type defaults are Limit Orders. You may select Market orders or else set a value by entering it in the Limit Price input field for each asset.

Review your orders and when satisfied click on the blue **Transmit All** button.

In this lesson you should have learned how to use the Portfolio tab in Classic TWS to set up Model Portfolios, create holdings and how to fund client accounts and trade in to Model Portfolios.