IGNITES

August 3, 2006

Advisors Becoming More Aggressive: Study

by Christine Ong

Registered investment advisors, or RIAs, are taking a more active approach to managing their clients' portfolios, significantly upping their usage of alternative investment products. This is according to an annual survey of more than 600 RIA firms nationwide conducted by Rydex AdvisorBenchmarking released this week.

RIAs using tactical investment approaches in 2005 doubled from two years prior to nearly 40% from 17% in 2003. Following that trend, the use of alternative investment products like exchange-traded funds, or ETFs, also jumped, with nearly three quarters of advisors investing in ETFs last year, up from 42% in 2004.

"Advisors are looking someplace other than a classic buy-and-hold fund to generate returns," says Bing Waldert, an analyst at Cerulli Associates.

Aside from the tax efficiency of ETFs, some advisors say aggressive marketing has helped to focus advisors' attention on them amid a sea of competing investment products.

"There's a tremendous amount of marketing being done constantly," says Erika Safran, an advisor at New York-based Financial Asset Management Corp., citing mailings, seminars, e-mails and the like. "They're doing an excellent job of marketing their products."

Safran says advisors are also becoming more comfortable with using ETFs as the products become more entrenched in the marketplace.

Also on the rise is RIAs' overall assets under management. The study indicates that assets under management per firm has reached a seven-year high of $127 million, an 18% jump from 2004. Profits also spiked by 30% last year to an average of $382,000, the highest levels in the past five years.

"They're getting more money from existing clients and getting new clients," says Maya Ivanova, a research analyst for Rydex AdvisorBenchmarking.

Revenues also increased by 22% even as asset management fees dropped as a percentage of total revenue. AUM fees as a percentage of total revenue have been declining in the past six years, Ivanova says, from 85% in 2000 to 75% last year.

The advisor revenue mix has changed as well in 2005, with revenue generated from planning and consulting increasing to 24% from 20% in 2004. Commissions make up 1%.

It's little wonder that nearly a third of the advisors surveyed appeared bullish about their future, expecting more than a 30% growth over the next five years.

Some 43% of advisors identified referrals as a key driver of that growth, though currently, 97% of advisors admitted relying on word of mouth to find new clients.

Another 41% of advisors point to increased marketing and networking as key to achieving success, while 14% said that building the right team of people is necessary to growing their business.

Maya Ivanova
Research Analyst
Rydex Advisor-Benchmarking

"Consistent and measured growth is the basis for advisors' success," Ivanova says.

"Client relationship management and finding the right balance of product offering and services can help advisors achieve sustained growth over the long term."

At the same time, advisors continue to see significant challenges for an industry experiencing healthy growth.

According to Cerulli, RIAs are second only to independent broker-dealers when it comes to the largest percentage increase in financial advisors in 2004.

Some 65% of advisors consider overregulation as the biggest threat for the industry, though this number has remained flat from 2004. Advisors who cited managing client expectations as a serious challenge nearly doubled, from 29% in 2004 to 56% in 2005.

"The RIA industry is growing.It's getting more competitive," Ivanova says. "There's that risk of losing clients to other advisors, broker-dealers and banks."

Ivanova says the average firm lost 15% of its existing clientele in 2005, while acquisition efforts added 18% more clientele to the average firm's client base.

Waldert says overregulation may also have an impact on the ability of RIAs to fulfill client expectations.

"They're spending more time with compliance issues than ever before; that detracts from their ability to find new clients and service clients they already have," he says.

The growth of the industry is also posing additional challenges, including having appropriate staffing to meet clients' needs, Safran says.

The study indicates that an average of one client service staff member has been added to RIA firms.
While RIAs are adding staff, the study found that 33% don't offer any courses or training for their employees, while only a little more than half of advisors don't delegate client meetings to their employees.

"In order to grow your business, you have to train your staff and delegate some of the client relationships to staff members," Ivanova recommends.

Some advisors say being knowledgeable, well-trained and up-to-date are more critical than ever.

Richard Applegate, president and chief executive officer of First Commonwealth Financial Advisors, says a possible drawbackto the substantial growth of RIAs is the possibility of having more advisors who are less competent.

“There are a lot of people who don’t know what they’re doing and creating a bad reputation for those who do,” he says.

Overall, today’s RIAs are spending more time servicing their clients and doing portfolio management. Some 27% of an advisor’s time was spent on client services in 2005, up from 19% in 2004. Another 27% is spent on portfolio management, more than three timesthe 8% registered in 2004.
Ivanova says advisors who spend more than 60% of their time with clients are eight times more profitable than advisors who spend less than 30% of their time with clients.

And, when it comes to deciding which advisor to hire, the study reveals that trust trumps performance.

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About the Survey
The seventh annual Rydex AdvisorBenchmarking Study was conducted online and via telephone surveys with 630 RIAs between February 2006 and May 2006.

About AdvisorBenchmarking, Inc.
AdvisorBenchmarking, Inc. is a research and analysis center focused on the RIA marketplace. Through its survey web site, www.AdvisorBenchmarking.com, the firm conducts multiple surveys every year on advisors covering a host of business and investment management practices. The findings and analysis of the data are then released to the marketplace in the form of annual studies, quarterly research notes and monthly newsletters. The service is aimed at helping advisors grow and enhance their firms by comparing how their businesses fare against other advisors, as well as learning best practices of the most successful advisors in the business. AdvisorBenchmarking is an affiliate of Rydex Investments.