

National Survey Finds that Registered Investment Advisors Plan to Increase Use of Alternative Investments

Rydex Advisor Benchmarking Study shows room for improvement for RIAs helping boomers prepare for retirees

February 15, 2007... Rockville, Md., —Registered investment advisors (RIAs) plan to ramp up their use of alternative investments (such as hedge funds, real estate, commodities, currencies and managed futures) in the next five years, according to a national RIA survey released today by Rydex Advisor Benchmarking, Inc. Most advisors (42%) have moderately increased their use of alternative investments (0 to 25% in the past five years), and 24% of advisors have increased their use of alternatives by more than 100%. Advisors largely attribute the increased interest in alternative investments to their desire to access alternative investment strategies and pursue alternative returns.

“As markets become more challenging, RIAs are seeking new ways to help their clients reach their investment goals,” said Maya Ivanova, research analyst for Rydex Advisor Benchmarking, Inc. “Alternative investments are becoming increasingly important to advisors. In fact, our survey indicates that nearly one fourth of advisors believe that they will be more important than traditional investments—such as stocks, bonds and cash—in the coming years.”

Getting ready for baby boomers

The study also revealed that advisors have some work to do to prepare for the large number of baby boomers moving toward retirement. About one half (51%) of advisors are developing tools and resources to assess clients’ retirement readiness and identifying areas where they need additional support. Twenty six percent are seeking to build strong relationships with the children of their clients and 24% are seeking to become retirement experts by taking educational seminars and courses. Twenty one percent are positioning themselves as “retirement coaches” to retirees and pre-retirees and 17% are partnering with other professionals who offer services to pre-retirees.

However, while advisors feel well-equipped to handle the investment side of the retirement equation, they’re not so prepared in the non-investment areas. Most advisors ranked themselves as well-equipped in the areas of wealth retention (64%) and income-related investments (64%). Conversely, about one half of advisors say that they have adequate knowledge of retiree health care issues (48%) and retiree living arrangements (50%). About one third of advisors are planning to increase their expertise in these areas (28% health care and 34% living arrangements). Interestingly, 17% of advisors say that they do not have familiarity with retiree health care issues and do not plan to enhance their understanding of this topic, while 10% of advisors felt the same way about retiree living arrangements.

Ivanova noted that, “Retirement is no longer just an investment equation for advisors. To truly be a ‘retirement coach,’ as nearly one fourth of advisors are striving to do, advisors will need to provide their retiree and soon-to- retire clients with comprehensive

solutions and advice—beyond just investments. Those advisors who can provide a total package to their clients will differentiate themselves in the market and be more successful than their counterparts who don't.”

These findings are part of the supplemental benchmarking study of the RIA industry conducted by Rydex AdvisorBenchmarking, Inc. in fall 2006. The results offer advisors guidance on how to run their own practices more successfully.

The survey also included these findings:

- Advisors anticipate a moderate increase in their allocation to alternatives in the next five years. Fifty five percent of advisors estimate that they will increase their use of alternatives up to 25%, while 13% believe they will increase their use of alternatives by more than 75%.
- Advisors have turned to alternative investments for a variety of reasons—different investment techniques (40%), seeking absolute returns (38%), filling portfolio allocations (29%), addressing portfolio correlations (28%) and seeking unique vehicle structures (25%).
- In the next five years, 24% of advisors believe that the alternative investments with the greatest business growth potential are capital protected and structured products, including commodities, while real estate (16%), private equity/venture capital (15%) and hedge funds (13%) also ranked as potentially rewarding to businesses.
- About one fourth (24%) of advisors believe that alternatives will become more important than traditional investments. About one half of advisors (49%) believe that alternative investments will not become as important as alternative investments, while 27% of advisors believe that alternatives will be just as important as traditional investments.
- Advisors believe that retiree clients are hesitant to invest in alternative investments mostly due to a lack of understanding (51%). But lack of liquidity (27%) and lack of clarity in how an alternative strategy works in the overall portfolio are also issues (27%).
- Advisors overwhelmingly (90%) believe that hedge fund registration is a positive development.

About the Survey

The supplemental annual Rydex AdvisorBenchmarking Study was conducted online with 333 RIAs in November 2006.

About Rydex AdvisorBenchmarking, Inc., an affiliate of Rydex Investments

Rydex AdvisorBenchmarking is a research and analysis center focused on the registered investment advisor (RIA) marketplace. Every year through its survey web site, www.AdvisorBenchmarking.com, the firm conducts multiple surveys on advisors, covering a host of business management and investment management practices. The findings and analysis of the data are then released to the marketplace as annual studies,



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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. Advisors also learn best practices of the most successful advisors in the business. AdvisorBenchmarking is an affiliate of Rydex Investments.

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