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ECONOMIC ENVIRONMENT SPARKS CHANGE IN INVESTMENT MANAGEMENT, ACCORDING TO NATIONAL SURVEY

Investment advisors are increasingly turning to alternatives and income-oriented strategies such as bonds, real estate and TIPS

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November 12, 2009...ROCKVILLE, MD...Last year's financial crisis marked a major shift in asset allocation approaches within the Registered Investment Advisor (RIA) industry. The 2009 Rydex|SGI AdvisorBenchmarking study reveals that more than half (56%) of advisors surveyed adjusted their investment strategy to protect their clients' assets and to weather the economic storm.

Changes to investment strategy included increasing allocations to fixed income and alternatives, taking advantage of new market lows as a buying opportunity and moving into cash for safety. For example, 24% of advisors said they are increasing their allocation to income-oriented investments such as bonds, real estate and Treasury Inflation Protected Securities (TIPS). One in three advisors surveyed increased their allocation to alternatives.

A majority (66%) of advisors now use alternative investments in their portfolios and most believe that alternative investments have been beneficial—35% of advisors surveyed said they used alternatives with some success and 19% said that alternatives played a significant role in helping protect portfolios. In fact, only 12% surveyed said that the alternatives they used did not help their portfolios.

“It is interesting to note that 89% of those advisors who said that alternatives played a significant role in helping to protect portfolios were more experienced than other advisors,” says Maya Ivanova, research manager for AdvisorBenchmarking. “Not only have they been in business for at least 10 years, but they also work at larger firms with more than \$100 million in assets under management.”

While mutual funds continued to be the preferred investment product in the advisor community, the percentage of client assets invested in mutual funds slid from 48% to 38% in the past year. However, exchange traded funds (ETFs), money market funds and alternative assets grew in popularity. In fact, alternative assets in a mutual fund structure more than tripled their usage to 10% from just 3% a year before. ETFs, alternatives in mutual fund structures and money market funds now surpass other investment products in client accounts such as stocks, bonds and separately managed accounts in popularity.

Other survey findings include:

- Nearly two-fifths (37%) of advisors increased investments in noncorrelated products in 2008.
- Thirty-three percent of advisors said they are increasing allocations to alternatives to provide adequate diversification to their clients.
- The average asset management fee decreased to its lowest level in seven years— from 1.11% in 2007 to 0.90% in 2008.
- Only 35% of advisors surveyed said that their diversification approach to asset allocation remains the same.
- The division of tactical (32%) versus strategic (49%) investment advisors remains largely unchanged compared to 2007.

About the Survey

The 2009 annual AdvisorBenchmarking study was conducted through online surveys of 561 RIA firms from February to April 2009. The analysis on Rydex|SGI AdvisorBenchmarking.com is based on the number of completed surveys and reflects only information from these surveys. This information is intended to be general and these overviews are no substitute for professional, legal or consulting advice. This information should not be construed as advice from Rydex|SGI AdvisorBenchmarking, Inc., AdvisorBenchmarking.com, its strategic partners or their affiliates. Rydex|SGI AdvisorBenchmarking.com is a service of Rydex|SGI AdvisorBenchmarking, Inc., an affiliate of Rydex|SGI.

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 of 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 their businesses to others, highlighting the best practices of the most successful advisors in the business. AdvisorBenchmarking is an affiliate of Rydex|SGI.

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