

DESPITE CHALLENGES, TOP RIAs HAVE FOUND WAYS TO ACHIEVE SUCCESS, ACCORDING TO NATIONAL SURVEY

RIA landscape changes over past decade as advisors adjust diversification/asset allocation strategies and refocus on marketing and client relationships to navigate stormy market conditions

October 1, 2009...ROCKVILLE, MD...The 10th anniversary edition of Rydex|SGI AdvisorBenchmarking, which was released today, reveals that in spite of challenging times, some registered investment advisors (RIAs) have been able to find opportunity and have been able to successfully grow their businesses. While the average advisory firm suffered asset losses of 12% in 2008, top advisory firms¹ experienced modest asset growth rates in 2008, with their assets increasing 6% from previous year.

Although the industry has gone through an overall growth transformation over the past 10 years, it was hit hard as a result of the 2008-2009 market crisis. Coupled with a drop in assets under management (AUM), the average asset management fee also decreased to its lowest level in seven years—from 1.11% in 2007 to .90% in 2008. Asset and AUM fee declines affected revenue—decreasing the average RIA’s revenue by 16% from 2007 levels. To retain and attract clients, advisors decreased their account minimums. The average minimum account size per firm plummeted 41% to \$250,000 in 2008 from a 2007 high of \$425,000—the lowest account minimum in six years. And bottom lines were hit hard as well, with the median profit margin decreasing to 19% in 2008 from 24% in 2007. Profitability of larger firms showed more resilience than did that of smaller firms. Firms with less than \$50 million in AUM had 16% profit margins compared to a median profit margin of 30% for firms with more than \$200 million in assets.

“Even as investment advisors as a whole lost two years of AUM growth during 2008, there are still advisors who continue to grow and prosper,” says Maya Ivanova, research manager for AdvisorBenchmarking. “Within this changing environment lies opportunity. The industry is still strong and has great potential for success.” For example, in addition to growing their AUM, top advisory firms¹ were also able to retain their client bases, while the average firm struggled to weather a 15% drop in the number of clients served (304 in 2008 vs. 356 on median in 2007). Most advisors (82%) see referrals from existing clients as the key driver for growth in the next five years.

¹ According to the survey, top firms are defined as those firms that have more than \$155 million in AUM (or are in the top 10th percentile in terms of size), have an AUM growth rate higher than 20% in 2008 (or are in the top 10th percentile in terms of asset growth rate), have net profits in excess of \$300,000 (or are in the top 10th percentile in terms of profits-per-principal), and offer at least four services (the range of services has to include both investment management and financial planning).

In spite of a difficult 2008, most advisors (63%) are still not making any changes to their practices. However, they are making changes to their investment strategies and priorities. "AdvisorBenchmarking findings show that as the nation's financial situation changes and new challenges arise, the main concerns and investment strategies of advisors are also changing in order for them to be successful in the new market environment," says Ivanova. The 2008 market crisis also brought other factors into focus, such as regaining assets and profitability and clients' demand for more of their advisors' time.

Relationships Rule

Study findings show that relationship management is the most important area when running an advisory firm, according to almost half (45%) of survey participants. When it comes to client communication, nearly all advisors have stepped up their client outreach since the summer of 2008 in order to reassure clients. And finding new clients (88%), communication with clients (79%) and the bear market impact (77%) are the most significant challenges for advisors now.

A 10-Year Lookback

Now in its 10th publishing year, the Rydex|SGI AdvisorBenchmarking study provides a retrospective look at the past decade in the independent advisory industry's history, and reflects on the market crisis of 2008 while examining the opportunities and challenges that will affect the industry's future growth and success.

The RIA industry has become one of the fastest-growing segments of the financial-services industry, experiencing a significant growth of AUM between 2002 and 2007 (78%). Overall, assets increased 56% since 1999. During this period, there have been fundamental changes in the RIA industry such as the transition to asset-based compensation and an increased focus on marketing, relationship management and client acquisition.

About the Survey

The 2009 annual AdvisorBenchmarking study was conducted through online surveys of 561 RIA firms from February to April 2009.

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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