Rydex AdvisorBenchmarking™
best practices for a better business

# ADVISOR BENCHMARKING 2007 Annual Survey Highlights—Summer 2007

## Operations

- RIAs use a variety of titles to position and market themselves into their desired market segments, such as investment advisor (40%), wealth manager (30%), financial planner (14%) and investment counselor (5%). Of the advisors who call themselves "wealth managers," 64% target individuals with a net worth of more than $500,000, while "investment advisors" focus on moderate high-net-worth individuals (55%).
- The percentage of time advisors spent with clients slipped slightly to approximately 25% from 27% in 2005.
- More than half (51%) of advisors don't plan to exit the business for at least 10 years. When planning for their industry exit, most advisors would prefer a transition to an existing partner (29%) or to existing employees (12%). About one-third (32%) of advisors don't have a succession plan and are in danger of losing their competitive positioning to companies with future-ready planning.

## Marketing

- Fewer advisors believe newsletters are an effective marketing tool—just 10% in 2006, a significant slide from 45% in 2005. While newsletters may not be the most effective way to acquire new clients, they are the most popular way for advisors to communicate with current clients and build closer relationships with them, with 62% of advisors utilizing this marketing media.
- Advisors de-emphasized moderate and sub-moderate net worth clients, with moderate net worth investors comprising 23% of the advisors' average client base compared to 31% in 2005. Ultra-high net worth investors made up 15% of the average client base in 2006, up significantly from the prior year's 9% mark. For 2007, the majority (56%) of advisors will be focusing on HNW investors.
- Minimum account sizes continue to increase for firms who require them (up to an average of $421,000 from $408,000 a year earlier).
- Client referrals continue to be the most successful method for acquiring new clients—97% of advisors get new clients via word of mouth. Web sites and professional referral agreements tie for second place, with 65% of advisors getting clients from these two sources.

## Investment Management

- For the first time in four years, advisors raised AUM fees–management fees are now weighing in at 1.00% up from 0.98% in 2005. Approximately three out of four advisors (71%) increased their AUM fees in 2006. The increase is largely due to the shift by advisors toward more highly customized solutions.
- Nearly 75% of advisors are using ETFs and 45% of RIAs increased their usage of ETFs up to 25% since 2001.

## Organization and Management

- Advisors are less afraid of relinquishing control over client relationships and delegated more responsibility to staff. In 2006, 29% of advisors were comfortable delegating meetings with clients with lower asset levels versus only 9% in 2005. Also, only 35% of advisors surveyed didn't delegate meetings or client relationships to staff members versus 55% in 2005.

- Advisors took the initiative to create more mentoring environments for their employees—such as boosting employee industry knowledge through seminars (46%), sponsoring employees for continuing education courses (35%) and developing internal educational programs (35%). Almost half (46%) of advisors sent their employees to seminars compared to just 22% in 2005. Despite good intentions, 33% of advisors do nothing to help their employees develop professionally—neglecting to pay for seminars or continuing education opportunities.
- Half of advisors (49%) search for new talent for their teams through referrals from clients and friends. Other top methods for recruiting employees include networking (31%) and job web sites (23%).

## Client Relations

- Very few advisors focus on any client characteristic beyond a wealth range, which ranked as the most important criteria for 65% of investment advisors. About one fourth of advisors (24%) focus on specific age groups, while 19% of advisors do not have a specific focus when seeking clients.
- More than 40% of advisors said that their clients have relationships with two or more investment advisors.
- More than a third (39%) of advisors now say that at least two out of five clients are retirees.
- Retirement plan rollovers (at 38%) continue to represent the largest source of client assets. Ranking second is the transfer of assets from another investment professional (33%).
- While most advisors are confident on the investment side of preparing for boomer retirement needs, they rank themselves as less equipped on the non-investment side (such as health care and living arrangements). Most advisors ranked themselves as well-equipped in the areas of wealth retention (71%) and income-related issues (68%) and calculating the correct amount for systematic withdrawals. Conversely, most advisors say that they are not knowledgeable about retiree health care issues (74%) and living arrangements (65%), but would like to gain expertise in those areas.

## Financial Performance

- Assets, revenues and net profits hit all time highs in 2006. Expenses also rose 20% in 2006—squeezing net profit margins.
- Advisors' most important goal is to increase assets under management (55%) with assets under management jumping to $142 million on median at year-end 2006.
- Net profit margins decreased in 2006 compared to 2005. In 2006, profits continued to improve, but profit margin decreased. The median profit margin decreased to 28% in 2006 from 29% in 2005.

**About Rydex AdvisorBenchmarking, Inc., an Affiliate of Rydex Investments**

*AdvisorBenchmarking is a free practice management program designed to help RIAs better manage and grow their firms. The most recent survey of 912 advisors was conducted in May 2007.*



Rydex AdvisorBenchmarking, 9601 Blackwell Road, Suite 500, Rockville, MD 20850
www.advisorbenchmarking.com   800.258.4332

ABASH-6-0707