

## ADVISOR BENCHMARKING Supplemental Survey Highlights—Fall 2006

### Alternative Investments

- Most advisors have increased their use of alternatives moderately (0-25% in the past five years), although 24% of advisors have increased their use of alternatives by more than 100%. Of the remaining advisors: 12% have increased their use by 25%-50%, another 12% have increased their use by 50%-75% and 11% have increased their use 75%-100%.
- Overwhelmingly, ETFs were chosen by 37% of advisors as the number one investment vehicle that has helped advisors increase business since 2001. Commodities and mutual fund wraps tied for second place with 7% each, inverse mutual funds and separate accounts were both chosen by 6% of advisors and hedge funds were chosen by 5% of advisors.
- 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%).
- Advisors anticipate a moderate increase in their allocation to alternatives in the next five years. 55% 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%.
- 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.
- Advisors overwhelmingly (90%) believe that hedge fund registration is a positive development.

### Alternative Investments and Retirees

- Advisors indicate that most retiree clients are not asking for alternative investments. 61% of advisors report that less than 10% of their clients are asking for this type of investment. At the other end of the spectrum, 8% of advisors state that more than 76% of their clients are asking for alternative investment options.
- 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%).
- About one half of advisors (49%) believe that alternative investments will not become as important as traditional investments, while 27% of advisors believe that alternatives will be just as important as traditional investments and 24% believe that alternatives will be more important than traditional investments.
- More than one half of advisors (55%) say that less than 10% of their clients are using alternative investments in their self-directed IRAs. The remaining advisors say that their retiree clients' use of alternatives in their IRAs break down as follows: 8% of advisors say that 11%-25% of their clients use alternatives, 6% of advisors say that 26%-50% of retiree clients use alternatives, 10% say that 51%-75% use alternatives and 21% of advisors say that more than 76% of their retiree clients use alternatives.

### Organization and Management

- Advisors ranked their watchword for their firms in 2007 and "relationships" was the winner (21%), with "service" (17%) in a close second. "Sales" (14%), "product rationalization" (13%) and "retention" (8%) rounded out the top five picks.

## Preparing for Boomers

- To prepare for the large number of baby boomers reaching 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. 26% 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.
- Advisors feel well-equipped to handle the investment side of the retirement equation, however 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 arrangement.
- Advisors ranked their preferred methods for retirement income solutions, with most advisors (43%) recommending systematic withdrawal strategies. Dividend paying investments came in second (16%), while mutual funds (12%), annuities (8%) and bonds (6%) rounded out the list of top five preferences.

## Changes to Fees

- To compensate for additional services and non-investment services, 13% of advisors implemented a retainer fee program and 14% implemented a project fee program. Surprisingly, 73% of advisors have not changed their pricing structure.

## Client Profiles

- **Retiree Clients**  
Nearly one half of advisors (43%) say that 20%-40% of their clients are retirees. Nineteen percent of advisors say that less than one fifth of their clients are retirees, 23% of advisors say that 40%-59% are retirees, 12% of advisors say that 60%-80% are retirees and the remaining 2% of advisors say that more than 80% of their clients are retirees.
- **Client Risk Profiles**  
Advisors declare that one half (50%) of their clients are in the moderate risk profile category, with 20% in conservative, 20% in aggressive and 10% in other.
- **Assets Under Management (AUM)**  
About one half of advisors (47%) say that 40%-59% of their AUM is in qualified retirement accounts (IRAs, 401(k)s, etc). Twelve percent of advisors say that less than 20% is in qualified plans, 29% say that between 20% and 39% are in qualified plans, 10% say that 60%-80% are in qualified plans and the remaining 3% of advisors say that more than 80% of their AUM is in qualified plans.

### **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 333 advisors was conducted in November 2006.*

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