

RYDEX | SGI ADVISORBENCHMARKING

Annual Survey Results—2011

Research finds that in 2011, advisors were managing record levels of assets in the history of the survey.

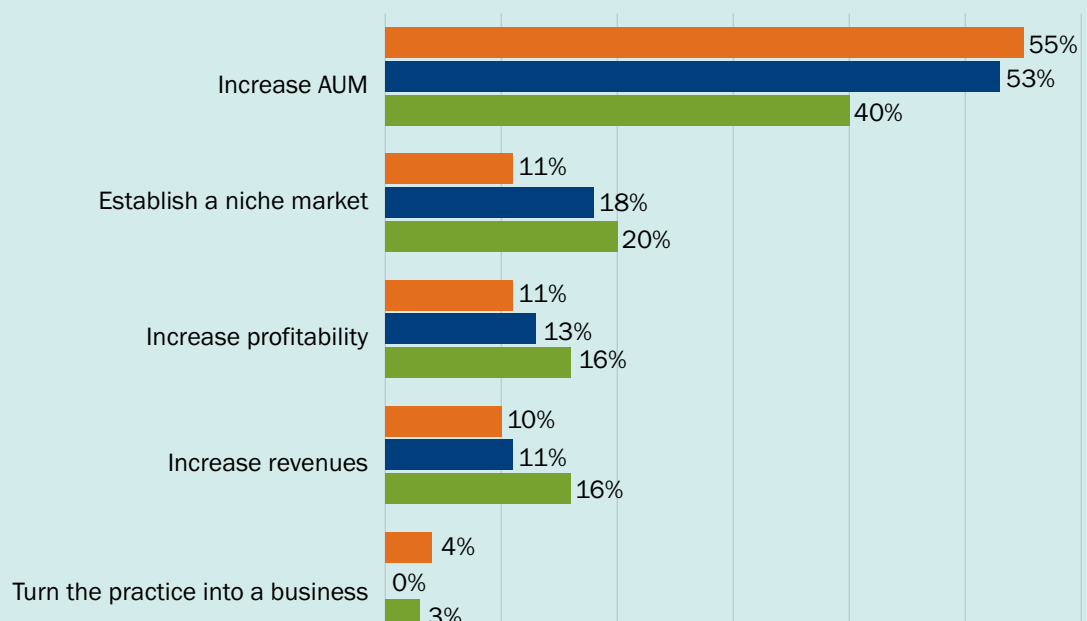
The 2011 Rydex|SGI AdvisorBenchmarking survey of more than 300 RIA firms, conducted online from February to May 2011, explored current industry trends for advisory firms. As the market environment continued its recovery in 2010, so did the RIA business—as assets continued to rebound to reach record levels in the aftermath of the 2008 turmoil and related asset setbacks. With market volatility continuing, RIAs are increasing the focus on more high-touch relationships with clients and spending more time on marketing than on business administration.

A significant trend in investment management has been increased asset allocation to alternatives to protect and diversify client portfolios. Advisors continue to see their use of alternatives and ETFs increasing in the coming years.

Executive Summary

- Advisory firm assets under management (AUM) continued to reach new highs in 2010.
- Advisors' most important goal continues to be increasing AUM, according to 55% of advisors (a higher percentage than the previous year), even while other priorities have shown steady declines.

Figure 1: Top Goals for Investment Advisors (2009–2011)

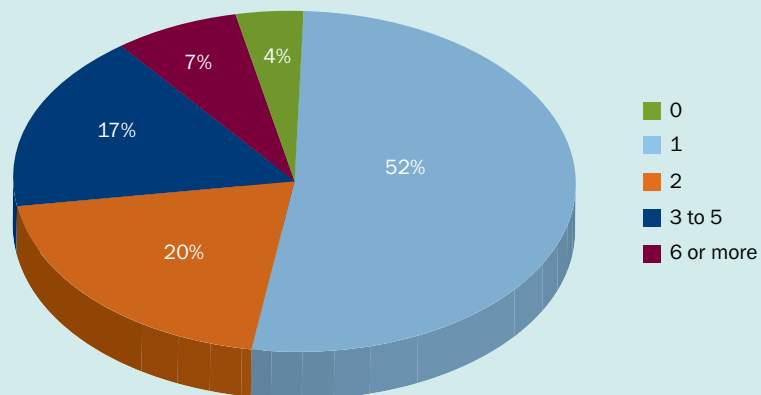


- Growth targets appear to be lower, with 45% of advisors expecting to grow their business by 11%–20% over the next five years, and 35% of advisors expecting growth below 10%.
- Referrals from existing clients continue to be the most sought-after source of AUM growth over the next five years, according to nearly half of all advisors (49%), more than double the next most important source of new clients.
- Finding new clients (48%), government regulation (43%), increased compliance demands (43%) and volatility/flat market impact (37%) are the most significant threats to advisors' businesses.
- The RIA business continues to be male-dominated, but women are making steady progress in the industry.

Operations

- Due to continued market volatility and uncertainty, advisors are spending significantly more time on portfolio management compared to the previous year (17% versus 10%).
- In line with their heightened focus on AUM growth, advisors are also spending more time on marketing and less time on business administration.
- Outsourcing trends are accelerating rapidly, with all of the top areas growing, including tax filing (54%), bookkeeping (26%), human resource functions (26%) and compliance (22%).
- The CFP designation is becoming increasingly important, with 14% of advisors pursuing this designation—more than three times the percentage working toward other designations.
- Nearly half (44%) of advisors work with multiple custodians—mostly because their business demands it (56%), but many do so (40%) because of client preferences.

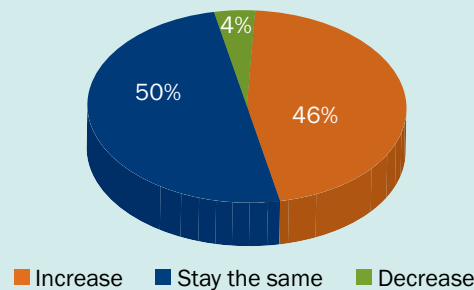
Figure 2: Number of Custody/Clearing Firms Advisors Work With (2011)



Investment Management

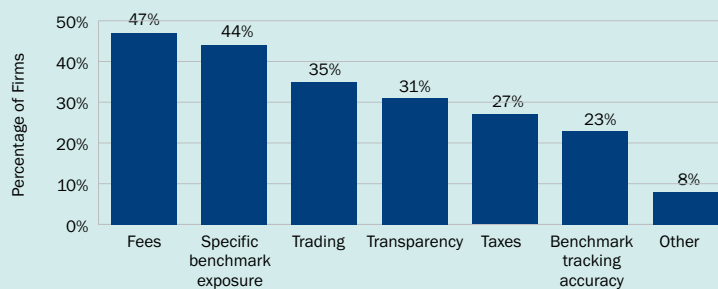
- A large majority of advisors continues to classify themselves as “strategic asset allocators” (65%).
- Asset management fees have increased slightly for all AUM levels.
- Morningstar is overwhelmingly the most popular research tool among advisors (77%), more than triple the next most common source.
- The majority of advisors continue to advocate alternatives—either for many of their clients (42%) or for a select few clients (32%); and client comfort with alternatives continues to improve, with 38% of advisors reporting that their clients are more comfortable with these strategies.
- Since 2009, there has been a significant decline in the percentage of advisors reporting that they have 0% of clients allocated to alternatives; the largest increase was among advisors who report having 11%-25% of clients allocated to alternatives; and nearly half of advisors (46%) say that they plan to increase their use of alternatives in the next three years.

Figure 3: Expected Change in Usage of Alternative Investments in the Next Three Years



- Advisors who use alternatives do so primarily in satellite positions with risk-related goals such as portfolio diversification (57%), risk management (44%) and lowering portfolio volatility (36%).
- More than half of advisors (54%) report that they will be increasing their use of ETFs over the next three years; and the reasons for using ETFs all showed much higher percentages in 2011, with significant gains in each of the top three categories: fees, specific benchmark exposure and transparency.

Figure 4: The Main Reasons Advisors Use ETFs (2011)



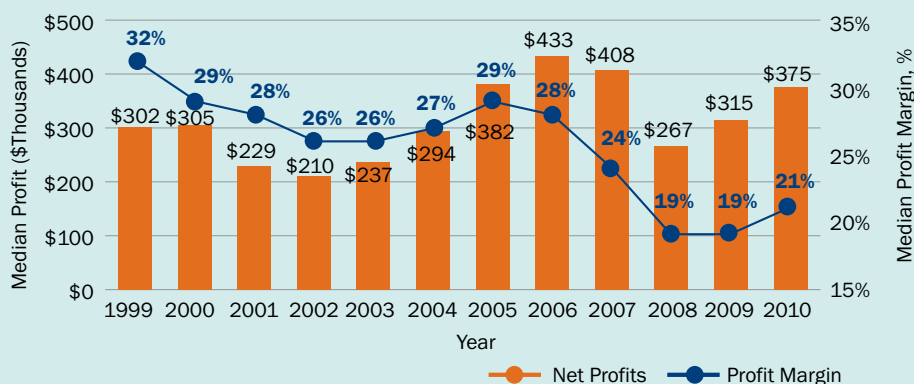
Marketing and Client Relations

- “Passive referrals from existing clients” was cited as the most common source of new clients over the past two years, while active referrals dropped significantly and referrals from other professionals (e.g., CPAs and attorneys) increased sharply.
- In-person communication continued to increase, with a second year of significant jumps in phone calls (96%), meetings (93%) and account reviews (62%).
- Advisors continue to target clients mostly by age and wealth range, with most of their clients falling into one of three “high-net-worth” categories: high, moderate or sub-moderate.
- Social media remains on the fringes of RIA firms’ marketing efforts, primarily for compliance reasons.

Financial Performance

- Firm assets continue to increase and posted a new high in 2010, once again outstripping the S&P 500’s returns, while revenues also hit a new peak in 2010.
- The median number of clients increased for the second consecutive year, with new clients significantly outnumbering lost clients.
- Expenses also increased in 2010 and were only slightly lower than the previous high, set in 2007—“people cost” (compensation and benefits) continues to be the largest combined area of expense, followed by technology.
- RIA firms made slight gains in profitability in 2010, with overall profits rising for a second consecutive year; margins rose to 21%, which is still well below the previous highs from either 2005 (29%) or 1999 (32%).

Figure 5: Profit Margin vs. Net Profits (1999-2010)



About Rydex | SGI AdvisorBenchmarking, Inc., an affiliate of Rydex | SGI.

Rydex | SGI AdvisorBenchmarking is a free practice management program designed to help RIAs better manage and grow their firms. The most recent survey of more than 300 advisors was conducted in February 2011 and May 2011. 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 or any of its affiliates.

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