

# RYDEX | SGI ADVISORBENCHMARKING

## Annual Survey Results—Summer 2010

**Research finds that in 2009 advisors were managing record levels of assets in the history of the survey.**

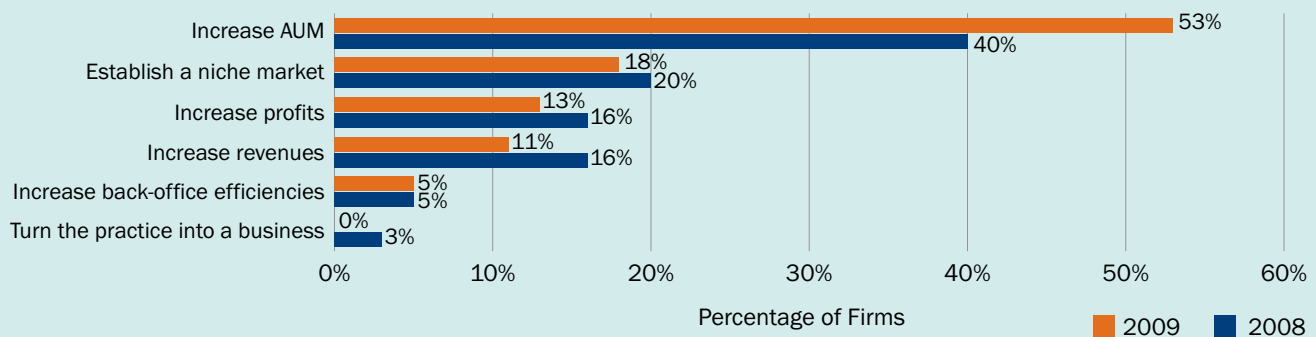
The 2010 Rydex|SGI AdvisorBenchmarking survey of 427 RIA firms, conducted online from February to May 2010, explored current industry trends for advisory firms. As the market environment improved in 2009, so did the RIA business—assets soared, and RIAs became better at fine-tuning processes and taking advantage of new opportunities. In 2009, advisory firms, on average, were managing the highest asset levels in the history of the survey.

A significant trend in investment management has been increased asset allocation to alternatives to protect and diversify client portfolios.

### 2009 Was A Strong Rebound Year For Advisors

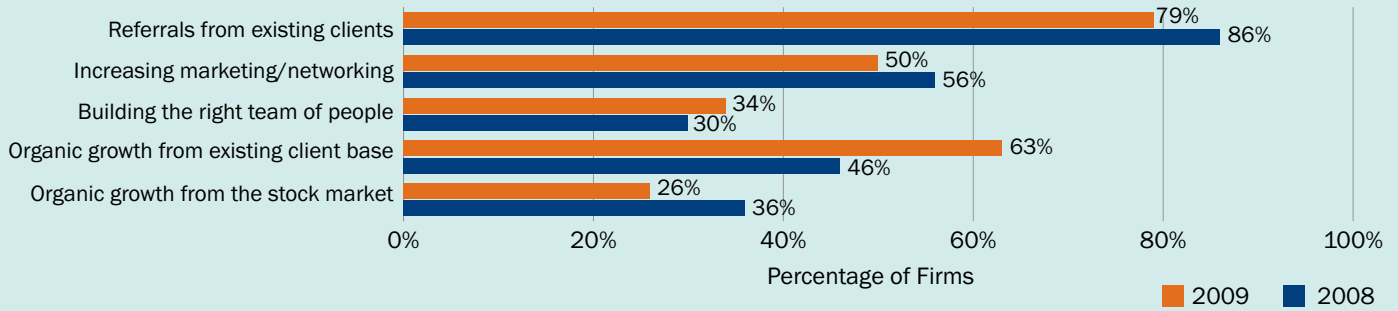
- In 2009, advisory firms, on average, were managing the highest asset levels in the history of the survey. Assets increased 28% in 2009 to \$174 million on median from \$136 million in 2008.
- Advisors’ most important goal is to increase AUM, according to 53% of advisors.

Chart 1: Top Goals for Investment Advisors (2009 vs. 2008)



- Almost half of advisors surveyed (42%) expect that they will grow their business, as measured by AUM growth, by 11%-20% over the next five years.
- Most advisors (79%) continue to see referrals from existing clients as the most important growth driver for the next five years.
- Thirty-one percent of advisors said they reduced principal compensation in 2009.

Chart 2: Advisors' Key Growth Drivers in the Next Five Years (2009 vs. 2008)



- Eighteen percent of advisors added new services while none decreased their service offering. Only about 8% of advisors reduced administrative and support compensation and only 3% of advisors conducted staff layoffs.
- Client acquisition and marketing is the top area in which advisors feel they need to improve, according to 47% of survey participants, as compared to 2008 when 74% saw client acquisition and marketing as the top area for improvement.

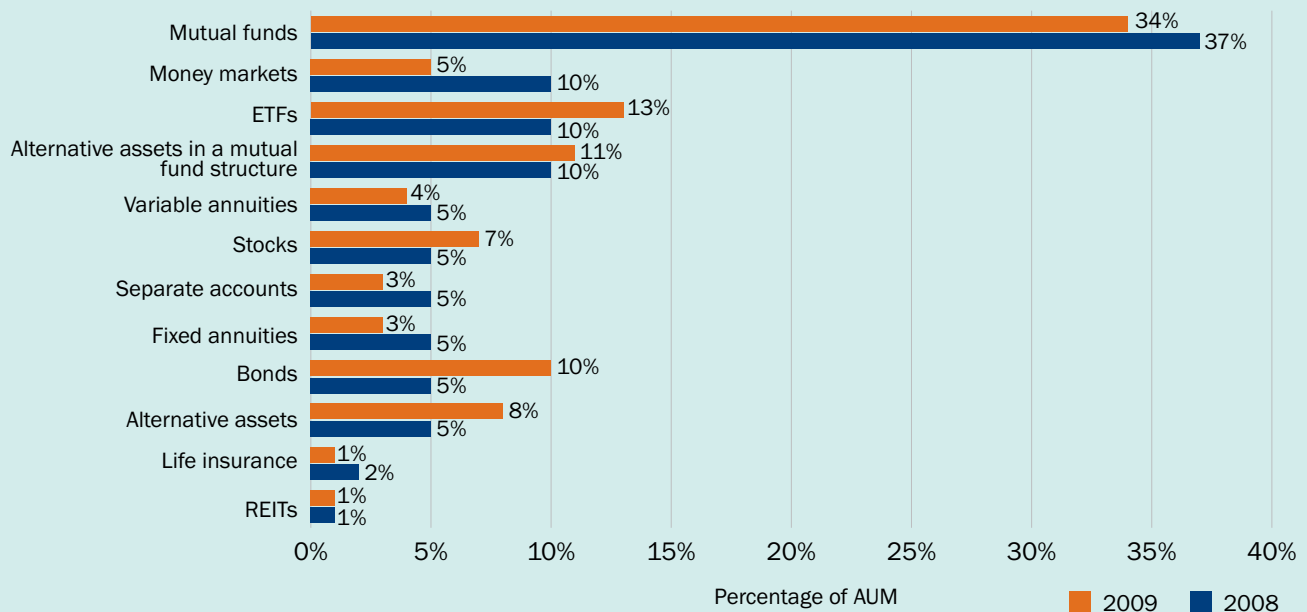
## Operations

- As markets improved in 2009, advisors spent less time on client service—only 10% of their time in 2009 as compared with 15% of their time in 2008.
- Nearly a fourth (22%) of advisors are offering investment management services to other advisors.
- To help improve bottom-line performance, investment advisors are looking to improve productivity with outsourcing solutions. The top functions advisors outsource are tax filing (41%) and bookkeeping (16%).

## Investment Management

- AUM fees slightly increased to 0.92% from 0.90% in 2008
- Mutual funds continue to be the preferred investment product in the advisor community, with 34% of advisor assets invested in mutual funds.

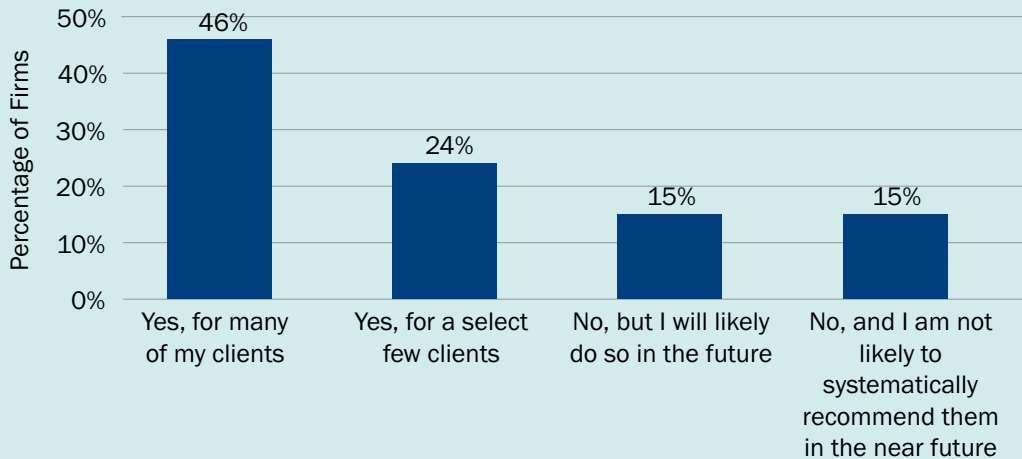
Chart 3: Average Advisor's Investment Product Usage (2009 vs. 2008)



## Alternative Investments and ETFs

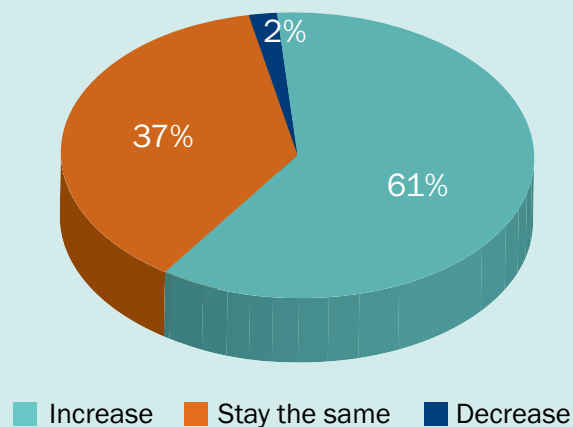
- Investment advisors are increasingly turning to alternative investments. The majority (70%) of RIAs surveyed currently advocate using alternatives either for many clients (46%) or for a select few clients (24%).

Chart 4: Percentage of Advisors Recommending Alternative Investments



- For 19% of advisors, at least half of their clients are invested in alternative investments.
- Most advisors (76%) are attracted to alternatives for their ability to diversify a broader portfolio.
- The average advisor's typical client portfolio has 8% invested in alternative assets and 11% invested in alternative asset mutual funds.
- Those firms that use alternatives tend to have more clients and assets under management than their counterparts.
- More than half (61%) of advisors expect to increase their usage of alternative investments in the next three years.

Chart 5: Expected Change in Usage of Alternative Investments in the Next Three Years



- ETFs continue to appeal to advisors due to specific benchmark exposure (68%), transparency (68%) and cost (61%).
- Currently, 70% of advisors are using ETFs, and 71% are likely to increase their usage of ETFs in the future.

## Marketing and Client Relations

- More advisors were proactive in seeking clients in 2009—21% gained more clients by actively seeking referrals from existing clients, compared with 12% in 2008.
- Web sites played a bigger role in bringing in new clients in 2009—17% of advisor clients were attributed to the web.
- Advisors were more proactive in communication with clients—83% communicate to their clients over the phone, 78% use email and 74% use newsletters.
- Advisors kept account minimums the same as in 2008.
- Of advisors surveyed, 65% increased the amount of time spent online communicating with clients, and half spent more time online conducting research and performing marketing activities.
- Only a quarter (27%) of advisors use social media. The main reason indicated by about half of advisors who don't use social media (48%) was that they are unsure how to navigate the compliance issues.
- Nearly three quarters (73%) of advisors pursue a course of action to “fire” clients who are not a good fit. Sixty-four percent of financial professionals do that by having a frank discussion about compatibility of the client with the advisor's business. Twenty-two percent of advisors refer clients to a specific advisor that may be a better fit. Less than one-third (27%) of advisors surveyed don't “fire” clients.

## Financial Performance

- Assets and expenses increased 28% and 3% in 2009, respectively.
- The increase in expenses was attributed to an increase in principal compensation—median principal compensation expenses increased to 51% of total expenses from 45% in 2008.
- Revenue increased 16% over 2008 levels.
- Net profits increased 28% in 2009—the highest increase in five years.
- The median profit margin was 19% in 2009, the same as in 2008.

## Financial Performance by Asset Range

- In 2009, medium and larger firms demonstrated higher profitability growth compared with smaller firms. Firms with less than \$50 million in assets under management had a 16% profit margin compared with a profit margin of 31% and 34% for firms with \$200 - \$500 million and \$500+ million in AUM, respectively.

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

*About Rydex|SGI AdvisorBenchmarking, an affiliate of Rydex|SGI of Rockville, Md. AdvisorBenchmarking is a free practice management program designed to help RIAs better manage and grow their firms. The most recent survey of 427 advisors was conducted in February 2009 and May 2009. 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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