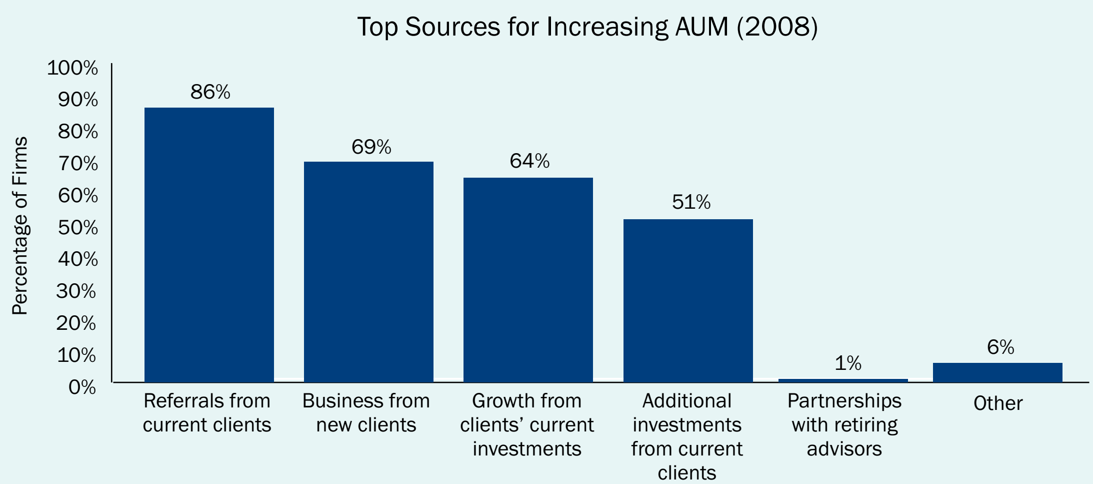
ADVISOR BENCHMARKING 2009 Annual Survey Results—Summer 2009

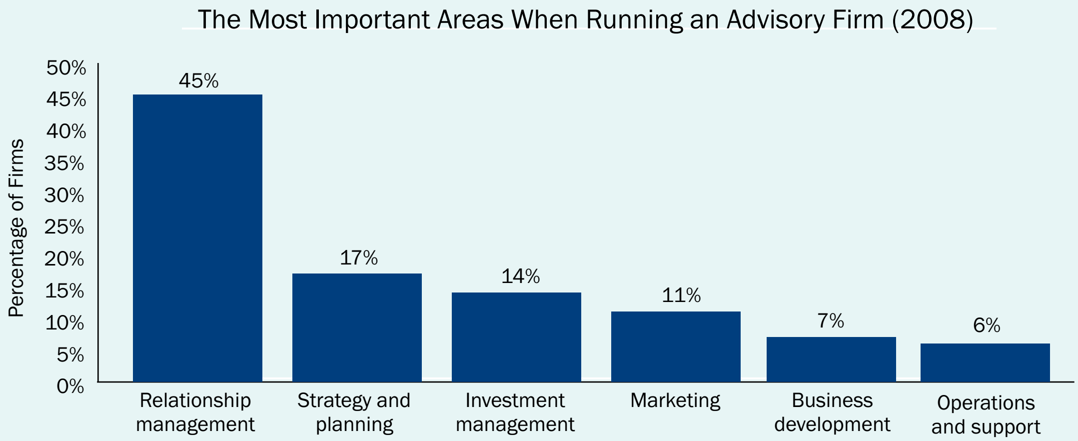
National survey finds that advisors are adjusting diversification strategies in asset allocation and refocusing on marketing and client relationships to navigate stormy market conditions.

The 2009 AdvisorBenchmarking survey of 561 RIA firms, conducted online from February to May 2009, explored current industry trends for advisory firms. A significant trend in investment management has been increased asset allocation to fixed income and alternatives to protect and diversify client portfolios. Advisors have also responded to 2008 declines in assets under management, clients and revenues by proactive relationship-building with current and potential clients. This 10th edition of the survey includes comparative data for the entire decade. Despite the 2008 market downturn, overall assets under management and revenues have increased over 50% since 1999.

Executive Summary

- After a tough 2008, most advisors (63%) are not making any changes to their practices.
- Most advisors (82%) see referrals from existing clients as the key driver for growth in the next five years.
- Relationship management is the most important area when running an advisory firm, according to almost half (45%) of survey participants.
- Client acquisition and marketing are the top areas in which advisors believe that they need to improve. Only 36% of advisors have a marketing plan in place.
- Finding new clients (88%), communication with clients (79%) and the bear market impact (77%) are the most significant threats to advisory businesses.





Operations

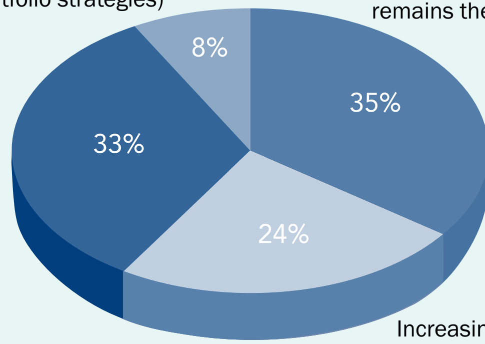
- Twenty-five percent of advisors don't have a succession plan.
- About one-fifth (16%) of advisors have changed their plans to exit the business because of the challenging market conditions of 2008.
- Advisors were less willing to outsource in 2008 due to budget constraints.
- Twenty-five percent of advisors work 51-60 hours per week, and 21% of financial professionals work 61-70 hours per week.

Investment Management

- Only 35% of advisors surveyed said that their diversification approach to asset allocation remains the same. Twenty-four percent of advisors said they are increasing their allocation to income-oriented investments such as bonds, real estate and Treasury Inflation Protected Securities (TIPS).
- The average asset management fee decreased to its lowest level in seven years—from 1.11% in 2007 to 0.90% in 2008.
- ETFs, alternatives in mutual fund structures and money market funds now surpass in popularity other traditional investment products, such as stocks, bonds and separately managed accounts. Mutual funds continue to be the preferred investment product in the advisor community, with 37% of client assets invested in mutual funds. However, the percentage of client assets invested in mutual funds slid to 37%, compared to 48% in 2007.
- Alternative investments:

  - Nearly two-fifths (37%) of advisors increased investments in noncorrelated products in 2008.
  - Twenty-five percent of advisors increased allocations to alternative assets.
  - Nineteen percent of advisors said that alternatives played a significant role in helping protect their clients' portfolios and mitigating their downside risk in 2008. Only 12% of advisors surveyed said that the alternatives they used did not help the portfolios.
  - Thirty-three percent of advisors said they are increasing allocations to alternatives to provide adequate diversification to their clients.

Investment Diversification: Changes in Approach in 2008



- In 2008, more than half (56%) of advisors adjusted their investment strategy to protect their clients' assets and to weather the economic storm. Changes included more allocation to fixed income (30%) and alternatives (37%), taking advantage of new market lows as a buying opportunity (38%) and moving into cash for safety (37%).

Marketing and Client Relations

- Advisors are serving fewer high net worth (HNW) customers (net worth assets in excess of $1 million)—this market segment makes up 20% of the average firm's client base in 2008, compared to 27% in 2007.
- For the first time in seven years, advisors decreased their account minimums. The new average minimum account size per firm plummeted 41% to $250,000 in 2008 from the 2007 high of $425,000—the lowest account minimum seen in six years.
- Passive referrals, which used to represent the largest source of new clients, fell substantially in 2007. In fact, only 20% of new clients came from passive referrals from existing clients, compared to 45% in 2007.
- Web sites played a bigger role in bringing in new accounts in 2008—10% of new advisor clients were attributed to the web.
- Email is the most popular way advisors communicate with clients, with 84% of advisors utilizing email. Sixty-two percent of advisors use newsletters to communicate with clients and build closer relationships. About half of advisors organize quarterly one-on-one meetings and conduct annual client reviews.
- When advisors segment their client base, almost half rely on wealth range as a determining factor for focusing on potential clients. Nearly one-fourth (24%) of advisors had no focus on specific client types.
- More than half (56%) of advisors surveyed say that less than 80% of their clients will have adequate funds during retirement to meet their expected standard of living.
- Almost sixty percent (59%) of advisors find that the most effective way to communicate with clients during turbulent times is through one-on-one meetings.
- About half of advisors (49%) declare that maintaining close relationships with their clients is a regular business practice and that they were proactively reaching out to clients prior to the start of the financial crisis. Nearly all advisors have stepped up their client outreach since the summer of 2008 in order to reassure clients.

Financial Performance

- For the first time in the last six years, the advisory industry suffered a drop in assets under management (AUM), with assets decreasing 12% in 2008.
- Asset and AUM fee declines in 2008 affected revenue—decreasing the average RIA's revenue to $1.401 million, a 16% decline over 2007 levels.
- Expenses decreased 10% in 2008 to $1.13 million on median.
- With revenues on the decline, net profits decreased in 2008 to a median of $267,000 compared to $408,000 in 2007—the deepest decrease we've seen in profits in five years.
- The median profit margin decreased to 19% in 2008 from 24% in 2007.
- The median number of clients decreased 15% to 304 clients from 356 clients per firm the previous year.
- Advisors decreased their staff levels by laying off support staff. The average number of administrative staff decreased 67% to one per average RIA firm compared to three in 2007, and the average number of customer service team members fell 25% to three from four in 2007.

10-year Retrospective

- We have seen a remarkable growth of AUM between 2002 and 2007 (78%), followed by a dramatic decline in assets (-12%) resulting from the market crisis of 2008. Overall, assets increased 56% since 1999. Revenue increased 55% for that period, and expenses increased 89%.

Financial Performance by Asset Range

- In 2008 profitability of larger firms showed more resilience compared to smaller firms: Firms with less than $50 million in assets under management had 16% profit margins compared to a median profit margin of 30% for firms with $200 million and more in assets under management.

About Rydex|SGI AdvisorBenchmarking, Inc., 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 561 advisors was conducted in February 2008 and May 2008.

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