PriceMetrix
by McKinsey

The winning formula revisited: Teams in wealth management

Data from PriceMetrix show that as teamwork in wealth management becomes more widespread, it continues to be associated with several advantages for wealth advisors.

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Team-based wealth advice has become a central part of the wealth management landscape. The concept of working in a team environment appeals to advisors, as it allows them to leverage different strengths and skill sets to take better care of clients and grow their business. Teams also bring joint accountability and discipline to advisor practice and provide a built-in succession plan.

With the continued popularity of teams and the dynamic nature of advisory services, PriceMetrix has built upon its 2015 teams analysis to revisit prevalent trends and examine new trends having an impact on retail wealth management. The next few pages summarize how teams perform relative to solo practitioners, including breakdowns for established teams and teams with next-generation (newer) advisors. We do this by examining PriceMetrix's aggregated database covering 12 million retail investors, one billion transactions, and more than $6 trillion in investment assets across the United States and Canada.

In 2015, when PriceMetrix first studied the impact of teamwork on the performance of wealth advisors, the data clearly showed that teams outperformed their sole-practitioner counterparts. Since that study, teams have continued to grow in popularity. Despite the changing landscape, our current analysis reconfirms our 2015 findings that wealth advisors working on teams manage larger asset pools and generate more revenue than sole practitioners do. However, the drivers of the outperformance have changed: a convergence of teams and sole practitioners in client profile and scope of relationships reduces the effect these factors have on performance. Instead, the benefits of teams now mostly arise from their ability to accelerate the transition to fee-based models and contribute to the success of next-generation advisors.

Teams versus solo: How do they measure up?

According to our recent data, wealth advisors who work in teams continue to have advantages over sole practitioners. Teamwork is associated with greater advisor productivity, deeper client relationships, faster growth, and more widespread use of fee-based models.

Team advisors manage more assets and are more productive than sole practitioners
Today, teams continue to manage larger books than sole practitioners. For example, the average team of advisors manages $515 million and generates $2.9 million in revenue across 313 relationships, while the average sole practitioner manages $210 million, generating $1.2 million across 150 household relationships. On an advisor-adjusted basis, team advisors are more productive than sole practitioners, averaging $240 million in assets and $1.4 million in revenue, compared with $210 million and $1.2 million for sole practitioners (Exhibit 1).

Furthermore, team-based advisors generate higher returns on assets than sole practitioners—a pattern that holds across all household wealth bands (Exhibit 2). For example, team-based advisors and sole practitioners serving households with investable assets of $250,000 to $500,000 generate average returns of 0.85 percent and 0.81 percent, respectively. Teams' outperformance is similar for other levels of household wealth.

Exhibit 1

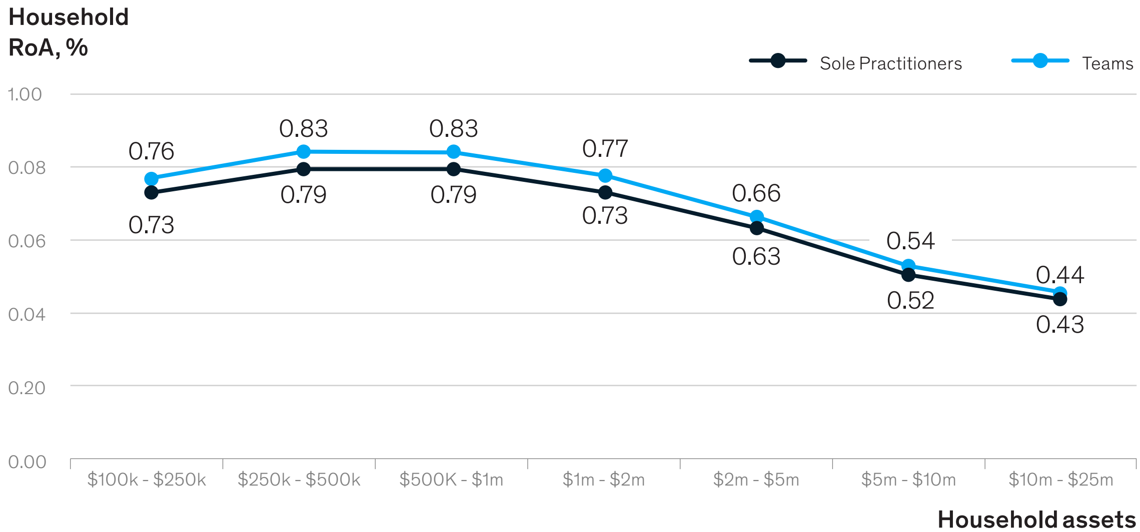
On average, team advisors are more productive than sole practitioners

	Sole Practitioners	Team advisors
Assets	$210 million	$240 million
Revenue	$1.2 million	$1.4 million
Household relationships	150	148

Source: PriceMetrix industry data, as of Feb 2022

Exhibit 2

Average return on assets, by household wealth and type of wealth advisor, %



Teams create deeper client relationships
Overall, team-based advisors continue to have larger and more profitable client relationships than sole practitioners. Team-serviced households have an average of $1.7 million invested, 13 percent more than the average sole-practitioner household (Exhibit 3). Similarly, teams continue to have fewer small-household relationships, with 35 percent of client households having investable assets less than $250,000, versus 40 percent for sole practitioners.

Clients of teams demonstrate greater willingness to consolidate more of their financial relationships than those of sole practitioners. Specifically, team-based advisors have more accounts per household and are more likely to advise on retirement accounts—a good indication that they are the primary financial advisor. Additionally, team-based advisors continue to enjoy higher rates of client retention. While these differences are not massive, they give evidence for the advantage that teams have across several dimensions.

Exhibit 3

Client relationships are more profitable, on average, for team-based wealth advisors.

	Sole practitioners	Team advisors
Average household assets	$1.4 million	$1.6 million
Accounts per household	3.2	3.5
Share of households with retirement accounts	71%	73%
Share of households with <$250,000 invested	40%	35%
Average client age	65	65
Annual client attrition	4.8%	4.3%

Source: PriceMetrix industry data, as of Feb 2022

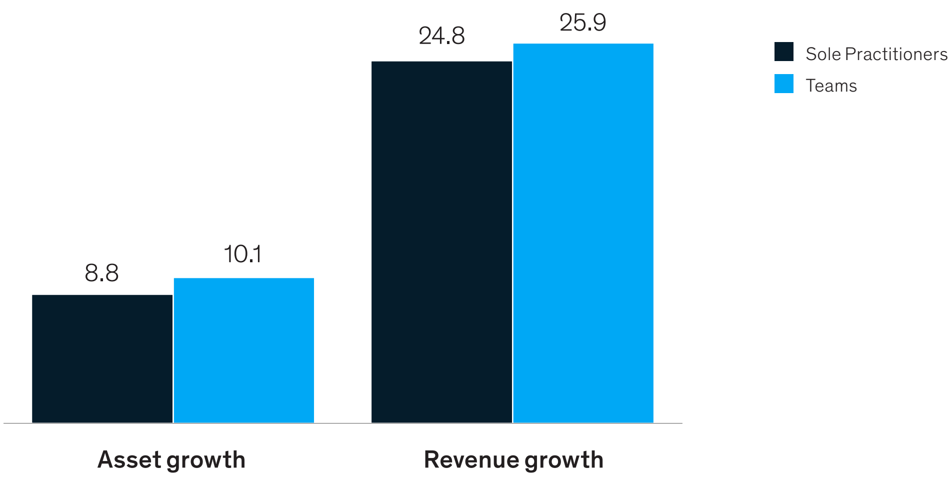
Teams grow faster in terms of both revenue and assets

By forming a team, advisors can accelerate growth. From 2020 to 2021, advisors in teams grew assets by an average annualized rate of 9.5 percent and revenues at a rate of 24.5 percent (Exhibit 4).

Sole practitioners, in contrast, reported asset growth of 8.3 percent and revenue growth of 23.6 percent. This pattern holds true for different time periods; the amount of growth changes, but teams consistently outperform solos.

Exhibit 4

Asset and revenue growth, 2020–21, %



Teams are likelier than solos to have shifted to a fee-based model
The last ten years have witnessed a significant industry-wide shift to a fee-based business model. In making this shift, teams have outpaced sole practitioners. The majority of team-based books are now fee-based, whereas sole practitioners still manage 50 percent transaction-based accounts.

Similarly, teams manage a larger share of hybrid accounts than their sole-practitioner counterparts. A likely explanation for the differences is that a fee-based model aligns well with a team's ability to create the scale necessary for delivering a wider variety of services and to focus on goal-based planning.

Exhibit 5

Team advisors have a larger share of fee-based accounts than sole practitioners

	Sole Practitioners	Team advisors
Percent of assets that are fee-based	50%	56%
Share of client households having hybrid (both fee-based and transactional) accounts	31%	38%

Next-generation advisors: How do they affect teams?

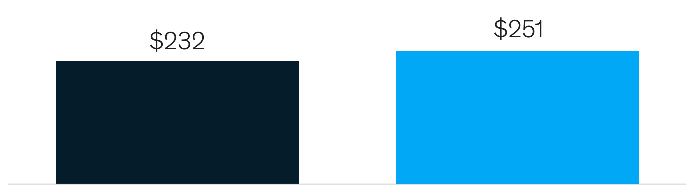
The evidence that teams support growth and productivity is particularly important as the industry continues to shift toward a service-centric, fee-based model. What is less known are the benefits that younger financial advisors, or next-gen advisors, bring to a firm.

To answer this question, we define next-gen advisors as those with less than nine years of experience. We define mixed teams as those that combine next-gen advisors and established advisors. Established teams consist of only established advisors.

On an aggregate level, mixed teams and established teams exhibit similar performance. Mixed teams manage slightly less capital per advisor, managing an average of $232 million, compared with $251 million managed by established teams (Exhibit 6). Mixed teams also have a higher share of fee-based assets than established teams: 56.2 percent, compared with a 55.2 percent share for established teams.

Exhibit 6

Average FA Assets by Team type, in millions

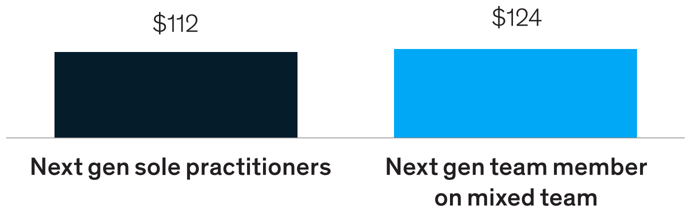


	Mixed teams	Established teams
Average household assets	$1.7m	$1.7m
Percent of households with > $250k Invested	65.1%	64.0%
Percent of assets that are fee-based	56.2%	55.2%

The benefits of mixed teams are clear for both next-gen and established advisors. Not only do next-gen team members outperform next-gen sole practitioners on every measure shown in Exhibit 7, but established advisors on mixed teams outperform their peers on established teams. A likely reason for advisors' superior performance on mixed teams is that next-gen advisors bring energy and momentum that benefit the established advisor, and established advisors bring a book of business and experience that benefit the next-gen advisor.

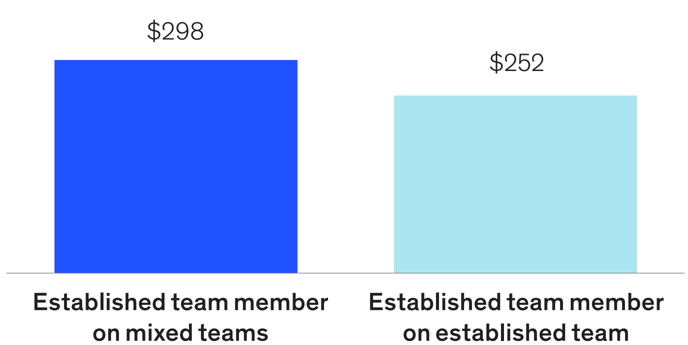
Exhibit 7

Average FA Assets by Advisor type, in millions



	Next gen sole practitioners	Next gen team member on mixed team
Average household assets	$905k	$1.4m
Percent of households with > $250k Invested	44.9%	61.2%
Percent of assets that are fee-based	52.5%	57.8%

Average FA Assets by Advisor type, in millions



	Established team member on mixed teams	Established team member on established team
Average household assets	$1.8m	$1.7m
Percent of households with > $250k Invested	66.5%	64.0%
Percent of assets that are fee-based	56.1%	55.2%

Conclusion

Teams continue to be more prevalent than ever in retail wealth management, enjoying the benefits of accelerated growth, improved client experience, and built-in succession planning.

Teams continue to outperform sole practitioners because, at a fundamental level, they offer a better platform for advisors and clients. Teams create more accountability across members and ensure that advisors are focused on growing and managing their business. Additionally, teams facilitate more specialized expertise available to their client base, create scale more efficiently across the practice, provide learning support for new advisors, and are more successful at shifting to the more productive fee-based model.

Within the team model, the role that next-generation advisors play is significant and positive. Our analysis indicates that mixed teams outperform across several key metrics. Furthermore, mixed teams prove to be mutually beneficial for both established and next-gen advisors. For next gens, a mixed team provides expertise and immediate scale to accelerate ramp time. For established advisors, mixed teams provide a larger asset base per advisor, comparable growth rates, and ease of succession planning.

The implications of our analysis are clear. Wealth management firms should continue to encourage advisors to operate in teams. Teams help advisors in the near term and support succession planning, especially for those attempting to shift rapidly to a fee-based model. Our analysis also indicates that teams can help boost the productivity of experienced advisors. Finally, the correlation between next-gen advisors on teams and their superior performance underscores the central role that teams ought to play in a firm's next-gen advisor strategy.

Advisors should be aware that teams can help them grow faster and ensure proper succession planning. The decision to work in some sort of a team arrangement should not be taken lightly, but our data point to practical advantages of teamwork. Not all teams will be successful, but according to our data, advisors who choose to work in teams are more likely to be part of something bigger.

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