THE STATE OF RETAIL WEALTH MANAGEMENT

2nd Annual Report

PriceMetrix®

REALIZE YOUR VALUE

PRICEMETRIX *INSIGHTS* SPECIAL EDITION, FEBRUARY 2012

INTRODUCTION

In this edition of *Insights*, we examine multi-year results for key performance drivers of the North American retail wealth management industry. The report reveals several trends, including:

- Overall growth in 2011 was weak, although there are signs of an improvement in the quality of the average advisor's business, with larger, more productive households and better pricing;
- Advisors have lower assets under management, predominantly due to a reduction in the number of households serviced;
- Advisors are being more strategic about the composition of their books, shedding small households while adding larger ones, and adding accounts and assets to existing households;
- Advisors are improving pricing on new fee-based accounts, although the gap between premium and discount priced accounts remains wide;
- Equity transaction business remains strong, with lower levels of discounting and larger trade sizes.

This report is made possible by PriceMetrix aggregated retail brokerage data representing 3 million investors, 500 million transactions, 1 million fee-based accounts, 4 million transactional accounts, and over $900 billion in investment assets. PriceMetrix combines its patented process for collecting and classifying data with proprietary measures of revenue, assets, and households to create the most insightful and granular retail wealth management database available today.

All results are reported as of December 31, 2011. PriceMetrix found no significant difference between the U.S. and Canadian markets, so all results presented in this paper are for the combined North American market.

2011 – A PERIOD OF LOW GROWTH

Annual gross production posted a small gain in 2011, although asset levels didn't fare as well. Average advisor revenue grew 1%, to $537,000, in 2011. Average advisor assets dropped to $74 million in 2011, from a high of $79 million in 2010. As a result of weak revenue growth and a decrease in assets, overall return on assets (RoA) grew by only 1%, to 0.71%, in 2011 (see Figure 1). During this period, the average number of households per advisor decreased, while average household size increased. Clearly, the asset loss sustained in 2011 was a result of a reduction in the number of households serviced, and not poor investment performance relative to the market.

FIGURE 1

	2009	2010	2011	Growth in 2011
Average Advisor Assets ($mm)	$69	$79	$74	-7%
Average Advisor Revenue ($000s)	$453	$533	$537	1%
Average RoA	0.67%	0.70%	0.71%	1%
Average Households per Advisor	200	192	177	-8%
Average Household Assets ($000s)	$348	$412	$417	1%

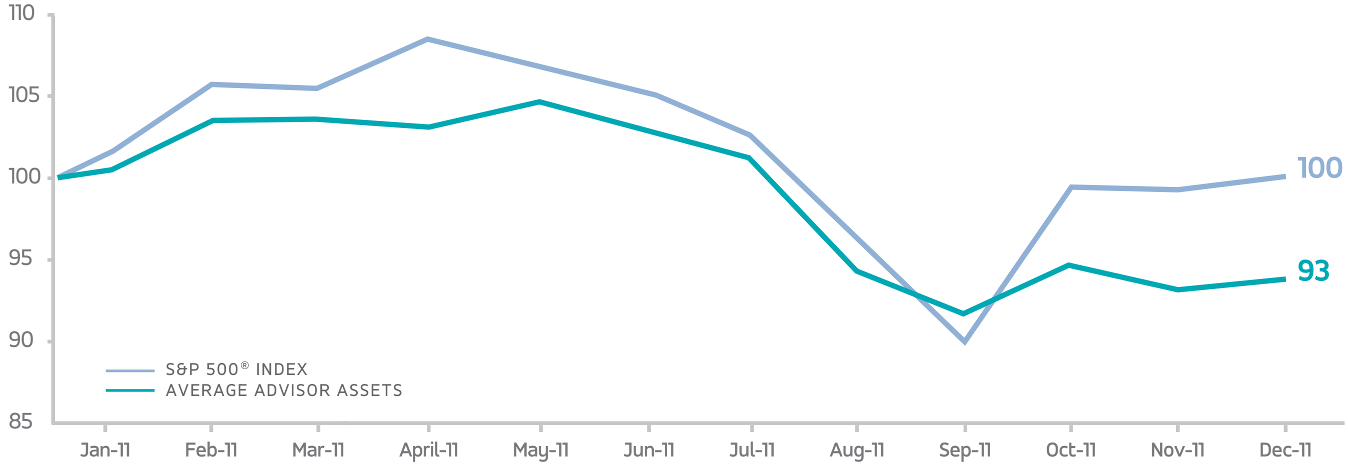
Advisors are opening fewer new accounts, and asset growth from new relationships is in decline. New accounts opened (for both new and existing relationships) fell from 91 in 2009 to 52 in 2011 (see Figure 2). Overall, new assets added per advisor are down from $11.5 million in 2009 to $7.9 million in 2011. Investors may be demonstrating a reluctance to move their assets in the face of prolonged market uncertainty.

FIGURE 2

	2009	2010	2011
New Accounts Opened:	91	68	52
Assets from New Relationships:	$11.5 million	$8.5 million	$7.9 million

A closer look at asset growth by month in 2011 shows that assets grew modestly for the first half of 2011, then began a steady decline as uncertainty about North American and European markets grew. The S&P 500® Index finished the year with effectively 0% annual growth, while average advisor assets declined by 7% (see Figure 3).

FIGURE 3 – MARKET GROWTH IN 2011 (INDEXED)

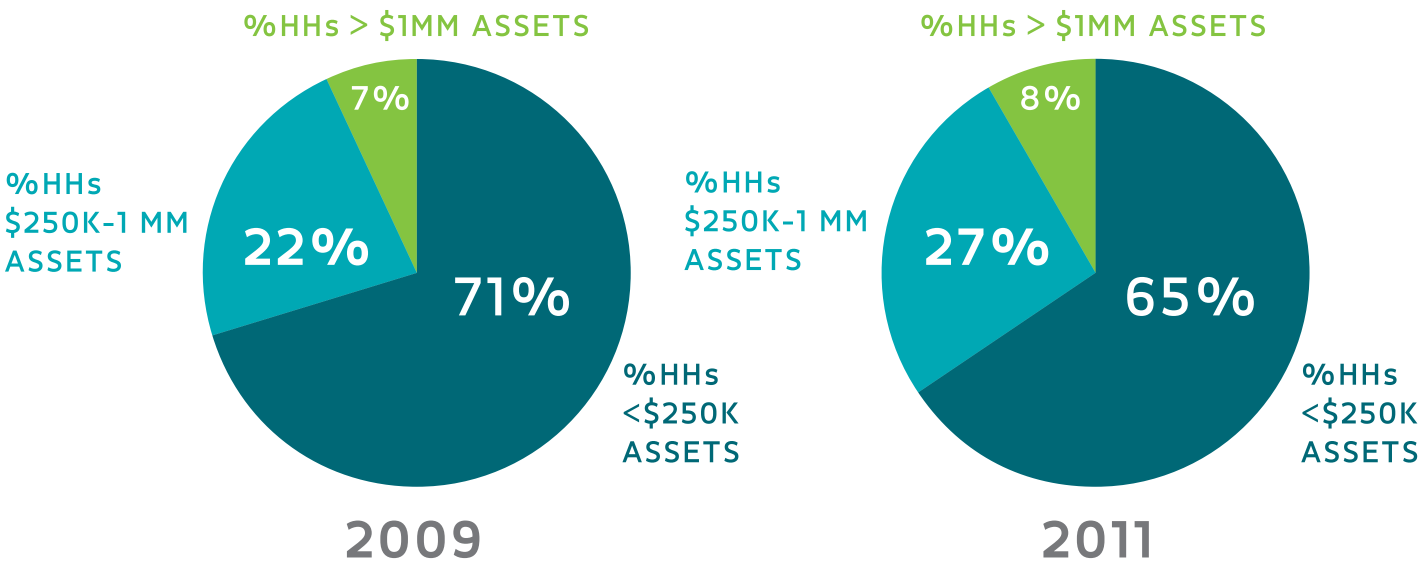


CONTINUED FOCUS ON LARGER HOUSEHOLDS IS DRIVING RESULTS

With the average number of households serviced per advisor dropping by 8% in 2011 (from 192 to 177), the question becomes: Are advisors losing the right households? It appears so. The decline in households was driven largely by a decrease in the number of households with less than $250,000 in assets. Despite having 15 fewer households, the average advisor grew production (albeit modestly). More importantly, advisors created more capacity for adding larger households and/or raising the level of service for their existing relationships.

As explored in previous editions of *Insights*, many firms have initiated campaigns and strategies to help advisors more efficiently service or reduce the number of small households in their books . Many of these programs have now been in place for a year or more and their impact can be seen in the percentage drop of households in the sub-$250,000 category. Since 2009, the percentage of small households industry-wide has fallen from 71% to 65% of all households, which represents a meaningful change in the composition of the average advisor's book (see Figure 4).

FIGURE 4– Distribution of Households (HHs)



The decrease in the proportion of small households caused average household revenue to increase by 31% over the past two years (see Figure 5). Other factors correlated to higher household revenue include an increase in the number of multi-account households and an increase in the productivity of multi-account households. In addition to shedding smaller, unproductive relationships, advisors were focused on expanding existing relationships.

FIGURE 5

	2009	2010	2011	Change in 2011
Number of Households per Advisor	200	192	177	-8%
Average Household Revenue	$2,414	$2,954	$3,174	7%
Percentage of Households with more than one Account	52.8%	54.9%	56.2%	2%
Average Household Revenue of Households with more than one Account	$3,436	$4,181	$4,525	8%

As advisors are shifting away from servicing small households, they are also opening fewer small households and more large households ($1 million or more in assets). Assets from new large households now represent 57% of the new assets added, which is an increase of 12% over 2009 (see Figure 6).

FIGURE 6

	Percentage of New Assets		
	2009	2010	2011
Households with $1,000,000 or more in Assets	51%	54%	57%
Households with $250,000 to $1,000,000 in Assets	28%	29%	28%
Households with less than $250,000 in Assets	21%	17%	15%

One trend worth noting is the increase in the percentage of households with both a fee and a transactional account (termed a Hybrid Household). An important part of the advisor-client relationship is helping clients decide what type of account meets their needs. Increasingly, for large clients, the answer is a combination of products and account types. The percentage of Hybrid Households has grown by 7% over the past year, as clients and advisors become more comfortable with adding fee based products to existing transactional relationships. Hybrid Households are larger households, having average assets of $956k and generating almost $9,000 in annual revenue per household (see Figure 7).

FIGURE 7

	2009	2010	2011	Change in 2011
% of Hybrid Households (Fee & Traditional, 2 or more Accounts)	17%	18%	20%	7%
Average Household Revenue of Hybrid Households	$7,495	$8,722	$8,991	3%
Average Household Revenue of Non-Hybrid Households	$1,716	$2,075	$2,247	8%

IS FEE-BASED PRICING TURNING A CORNER?

Transitioning to fee-based account relationships continues to be the focus for many firms and advisors in the retail wealth management industry. As advisors continue to build their fee-based business, the percentage of assets and revenue attributable to accounts in fee-based products has grown by more than 20% since 2009. The number of fee-based accounts per advisor has increased by 35% which, in turn, has fueled the 22% growth in fee revenue realized since 2009 (see Figure 8). It is noteworthy that the RoA on fee-based accounts is in decline. Fee RoA decreased by 2% in 2011.

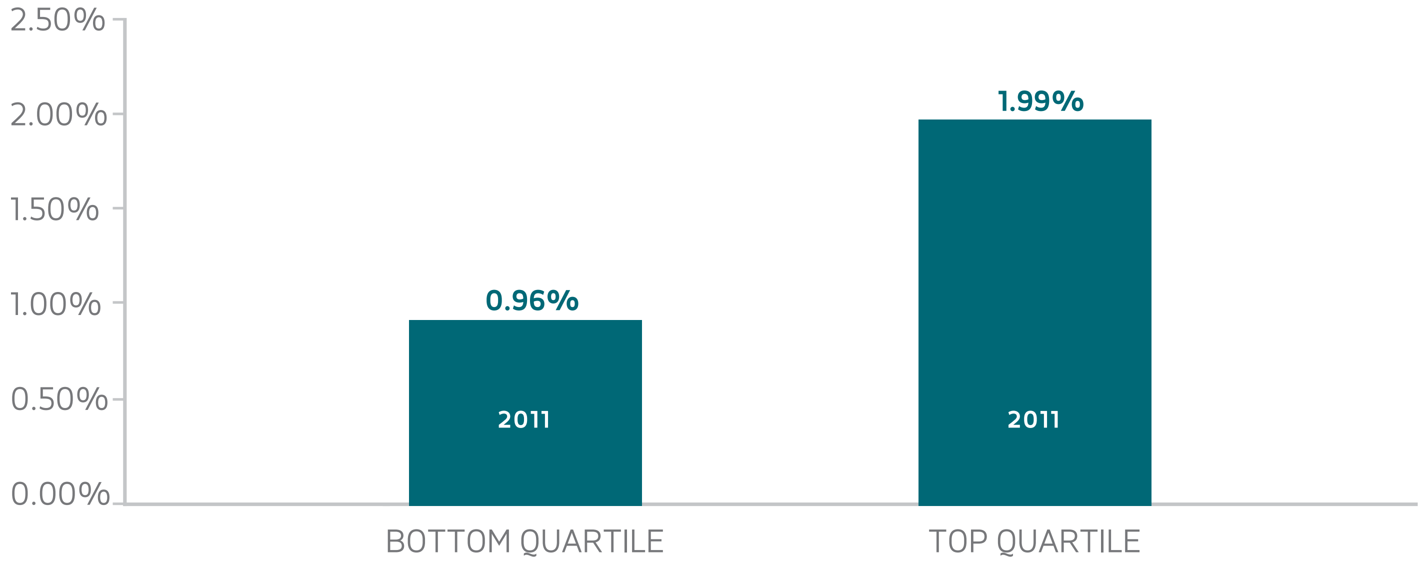
One of the drivers of the decrease in RoA is the fact that new fee accounts are priced at a rate that is far below existing fee relationships – a somewhat disturbing trend for the industry, given the number and size of new fee accounts being opened. In looking at the RoA for new fee accounts only, it appears as though we may be turning a corner: new fee-based accounts have an average RoA of 1.06%, up from 1.04% in 2010 (see Figure 8), which tells us that advisors are slowly raising their prices on new fee accounts. This trend will have a positive impact on the overall RoA of fee accounts should it continue into 2012.

FIGURE 8

	2009	2010	2011	Change in 2011
Fee-Based Accounts per Advisor	62	77	85	10%
Fee-Based Assets (as a % of Total Assets)	20%	23%	26%	13%
Fee-Based Revenue (as a % of Total Revenue)	35%	39%	43%	10%
Average Fee-Based Account Size	$239,632	$252,404	$240,189	-5%
Average Fee-Based Account RoA	1.23%	1.21%	1.19%	-2%
RoA on New Fee-Based Accounts	1.03%	1.04%	1.06%	2%

For fee-based accounts with $100,000 to $250,000 in assets, the average RoA is 1.45%, but the disparity in fees charged continues to be noteworthy. When we rank accounts by price charged, the top quartile of accounts, with an RoA of 1.99%, are priced 103 basis points higher than bottom quartile of accounts, which have an RoA of 0.96% (see Figure 9), and we have seen very little change in this disparity year over year. There remains a great deal of opportunity for firms and advisors to close the gap on fee-based pricing.

FIGURE 9 – RoA for Fee-Based Accounts with $100,000 to $250,000 in Assets



BETTER EQUITY TRADE PRICING, LOWER VOLUMES

Transactional volume fell by 16% in 2011, reflecting the shift away from transactional business and towards fee-based products. (Equity trades per transactional account were steady at 5 per account.) With a greater average household size, the average principal of equity trades executed grew 15% in 2011 to $23,150. Commensurately, average ticket size grew by 7% to a high of $248. Price as a percentage of the principal amount of a trade (Price-to-Principal Ratio) fell 7% in 2011, which is to be expected as trade size increases (see Figure 10).

FIGURE 10

	2009	2010	2011
Commissionable Equity Trades / Advisor	419	461	386
Average Ticket	$225	$232	$248
Average Principal	$20,925	$20,127	$23,150
Price-to-Principal Ratio	1.08%	1.15%	1.07%
Average Discount (from a Firm's 'list price')	38%	34%	35%

While the volume of trades has decreased, advisors are doing a better job of managing discounts: the average discount on an equity trade has fallen from 38% in 2009 to 35% in 2011. One remaining area of weakness in pricing is small trades. On trades with principal under $5,000, discounts have increased from 20% to 21%; however, fewer of those trades are being executed. As a percentage of all trades, small trades now account for only 24% of trades compared to 32% in 2009.

FIGURE 11

Trade size in 2011	% of Trades	Average Discount
Less than $5,000	24%	21%
$5,000 to $20,000	51%	25%
$20,000 to $50,000	18%	37%
$50,000 or more	7%	49%

OVERALL STATE OF THE INDUSTRY – 2011

The general health of the retail wealth management industry remains strong. While assets and revenue didn't achieve levels of growth seen in 2010, the multi-year trend remains positive. Both advisors and firms have done a great job of 'rebalancing their portfolio' of households – away from small and less productive households, and toward larger and more productive relationships. With a lower number of overall households, advisors have more capacity to better service the households and accounts that they have, and to focus on adding more of the households and accounts they desire.

As fee-based business continues to grow, advisors and firms must do more to close the gap on fee-based pricing and price similar-sized accounts and households within a narrower range. Discounting on equity trades has shown overall continued signs of improvement, but remains a significant area of opportunity for firms and advisors.

This report on the state of retail wealth management can be used to benchmark your performance against the industry or to build future business objectives within the context of what a typical advisor has achieved.

For information about custom benchmarking of your business, or to provide your feedback on this special issue of Insights, please contact Madeleine Cruickshank, Director, Analytics at (416) 955-0514 x225 or madeleine.cruickshank@pricemetrix.com.

OPPORTUNITIES FOR ADVISORS & FIRMS 2012

Although we've seen growth in several areas, there remains a significant amount of organic revenue upside in the retail wealth management industry.

- The typical advisor has 30% of households producing less than $150 in annual revenue;
- New fee relationships are being opened at an 11% discount compared to existing ones;
- More than 100 basis points separate premium and discount fee pricers;
- 44% of households have only one account;
- The average equity trade is priced at 35% off of list price.

Firms can capitalize on these opportunities by providing comparative pricing information, and by investing in tools that help advisors and managers to identify opportunities, set objectives, take action, and track results.

The analysis delivered in this edition of *Insights* is made possible by our aggregated market data and is the result of a collaborative effort by Patrick Kennedy, Vice President, Product and Client Services, Madeleine Cruickshank, Director, Analytics, and Mathew Duffy, Client Analyst.

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