THE STATE OF RETAIL WEALTH MANAGEMENT

5th Annual Report

PriceMetrix®

REALIZE YOUR VALUE

In this, our fifth edition of The State of Retail Wealth, we look at the trends in the retail wealth management industry and the factors behind these trends.

INTRODUCTION

The retail wealth industry enjoyed an exceptionally strong year in 2014. Average advisor assets hit a record high, revenue surged and recurring revenue increased. Productivity was higher as advisors continued to reduce the number of clients they service, increasing their focus and deepening relationships. They landed more attractive new clients and they retained current clients at a higher rate.

At the same time, though, the industry continues to face challenges. Clients are growing older faster than the overall population, a clear threat to industry growth. In addition, the industry experienced a widening gap between top performing advisors and bottom performers. While high performers enjoyed a banner year, underperforming advisors saw a material decline in revenue.

In this, our fifth edition of **The State of Retail Wealth**, we look at the trends in the retail wealth management industry and the factors behind these trends. Key performance metrics are reported as of December 31, 2014. As in past studies, PriceMetrix found no significant differences between the U.S. and Canadian markets, so all results presented in this paper are for the combined North American market.

This Insights report is drawn from the PriceMetrix aggregated database representing seven million retail investors, 500 million transactions, and over $3.5 trillion 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.

2014 Highlights

- Record increases in average advisor assets, production and recurring revenue
- A reduction in the number of small households serviced by advisors
- Advisors targeted more attractive new clients
- A record increase in the percentage of fee-based business, and an increase in pricing
- Client retention increased
- Equity transaction mix shifted to larger, lower priced trades
- The gap between top performing advisors and bottom performers widened
- Aging client base

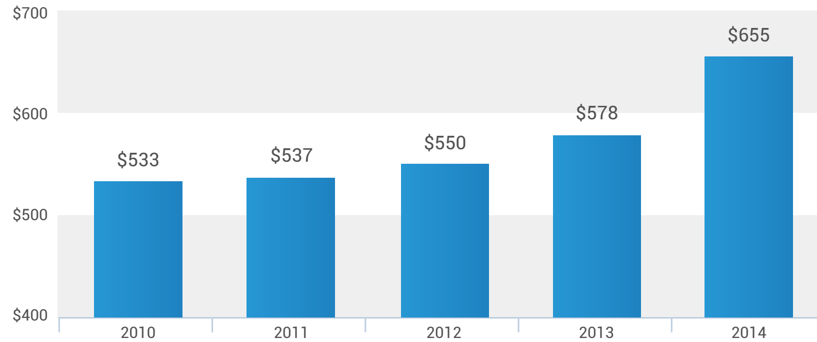
2014 – A YEAR OF SIGNIFICANT GROWTH

Advisor assets and revenue have risen every year since 2011 but revenue moved sharply higher in 2014, increasing 13%. Average advisor assets also rose, gaining eight percent.

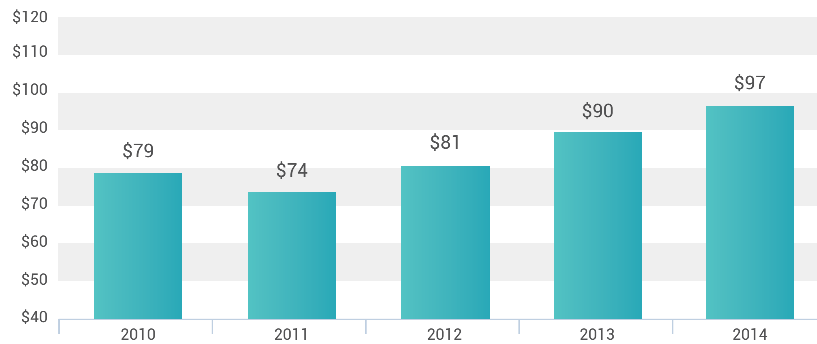
Since 2010, average advisor revenue has risen from $533,000 to $655,000. Average advisor assets has risen from $74 million in 2011 to a record $97 million in 2014. A long bull market in stocks explains some of these increases but, as we will see throughout this paper, advisors have also grown through increased focus and productivity.

Historically, revenue growth has lagged asset growth. However, in 2014, revenue growth was significantly greater than asset growth which means advisor productivity also improved. For the first time since 2008, average Revenue on Assets (RoA) improved last year, rising from 0.68% to 0.69%.

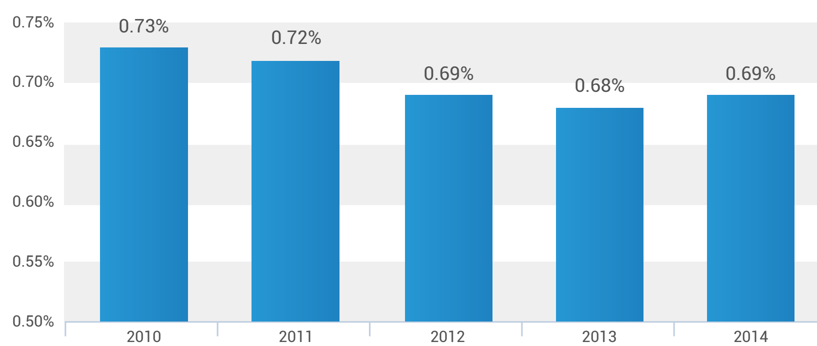
Average Advisor Revenue (thousands)



Average Advisor Assets (millions)



Revenue / Assets (RoA)



Lagging Advisors

It is important to note, however, not all advisors fared well in 2014. Median production growth was ten percent but the top quartile of advisors increased production by an average of 41%. In comparison, production actually declined 15% among the bottom quartile of advisors, leading to an even wider gap than usual.

IMPROVED FOCUS – IMPROVED RESULTS

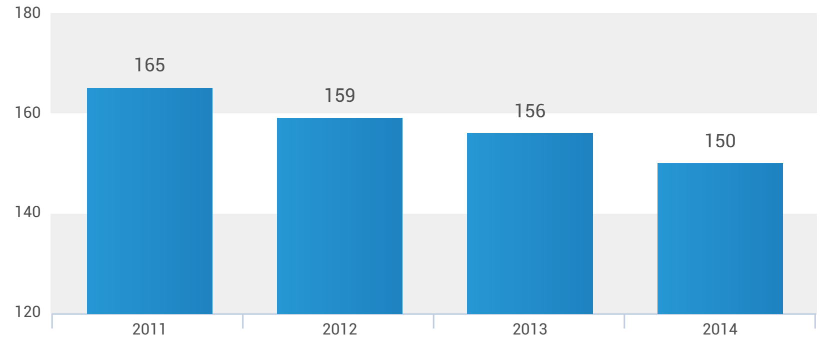
A key factor contributing to higher productivity is that advisors are working with fewer clients, which is a trend that began several years ago. The average number of clients in an advisor's book fell from 156 in 2013 to 150 in 2014. At the same time, average client assets increased from $562,000 to $628,000. Overall, since 2011, advisors have reduced the number of clients that they service by ten percent.

PriceMetrix analysis has consistently shown there is a strong correlation between the number of clients an advisor manages and his or her RoA. Fewer clients almost always leads to higher RoA because an advisor can provide a higher level of service to remaining clients which, in turn, usually means higher revenues.

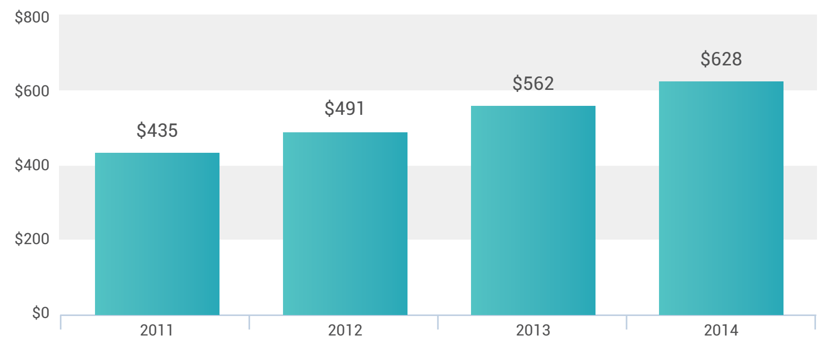
Advisors have historically improved their client loads by dropping smaller, less productive relationships. Advisors also appear to be showing more selectivity in attracting new client relationships. Average new client assets rose to $538,000 in 2014, up from $477,000 the year before, and up from $362,000 in 2011.

A key factor contributing to higher productivity is that advisors are working with fewer clients.

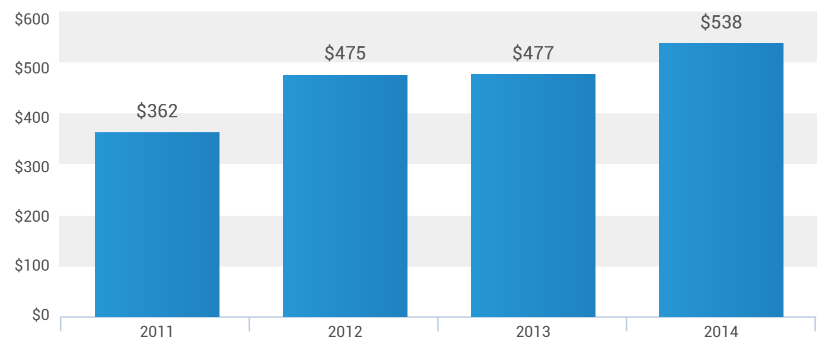
Average Number of Households Serviced



Average Household Assets (thousands)



Average Assets of New Households (thousands)



BREAKTHROUGH YEAR FOR FEE BUSINESS

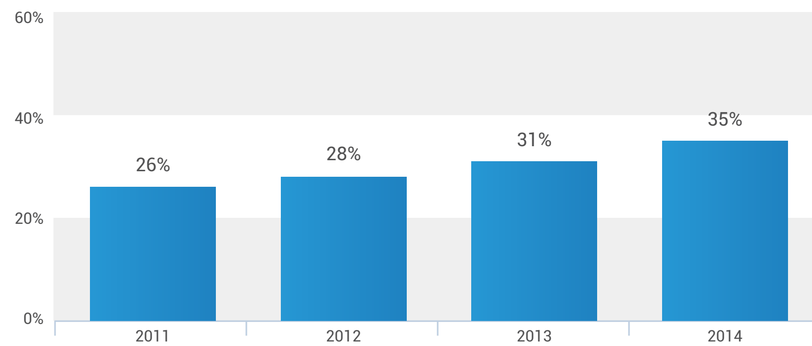
Another factor contributing to increased productivity is that advisors are continuing to transition to fee-based business. They have increased the amount of fee business they manage every year for the last several years and 2014 was no exception. In fact, it was the sharpest increase ever. The percentage of fee-based assets in the average advisor's book of business increased from 31% to 35% in 2014, while the percentage of fee revenue rose from 47% to 53%.

By the end of last year, 25% of clients were doing at least some fee business with their advisor, as traditional transaction-based clients added fee accounts to their portfolios. Importantly, though, these clients are not typically converting to a full fee only relationship. In fact, 52% of clients that have fee-based accounts also maintain transactional accounts with their advisors.

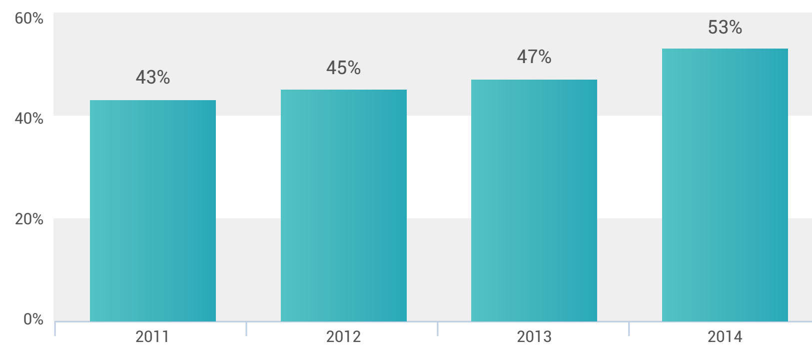
The growing percentage of fee business, however, is helping advisors improve their overall RoA, as fee business typically generates higher revenues.

By the end of last year, 25% of clients were doing at least some fee business with their advisor, as traditional transaction-based clients added fee accounts to their portfolios.

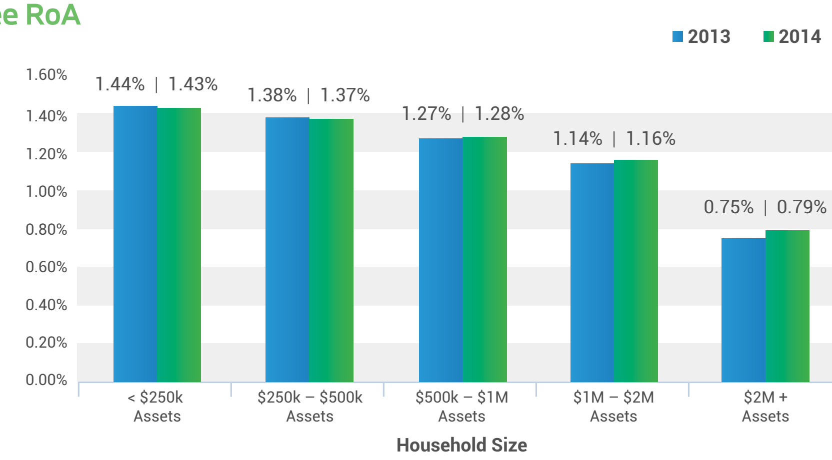
Fee-Based Assets (% of Total)



Fee-Based Revenue (% of Total)



Fee RoA



	2011	2012	2013	2014
Fee RoA	1.14%	1.06%	0.99%	1.02%
Average Fee Account Assets	$240,189	$257,990	$293,400	$292,759

Along with increasing the amount of fee-based business they manage, advisors were also able to improve fee pricing in 2014. The average RoA on fee accounts rose from 0.99% in 2013 to 1.02% last year. This is a particularly positive development, as it comes after several years of decline. Even more positive for the industry, the increase was largely driven by price increases among the largest accounts.

At the same time, though, the improvement in fee pricing has further widened the gap in RoA between fee and transactional business. While the average fee RoA is now 1.02%, the average transactional RoA is 0.53%, a large gap that continues to put pressure on fee pricing.

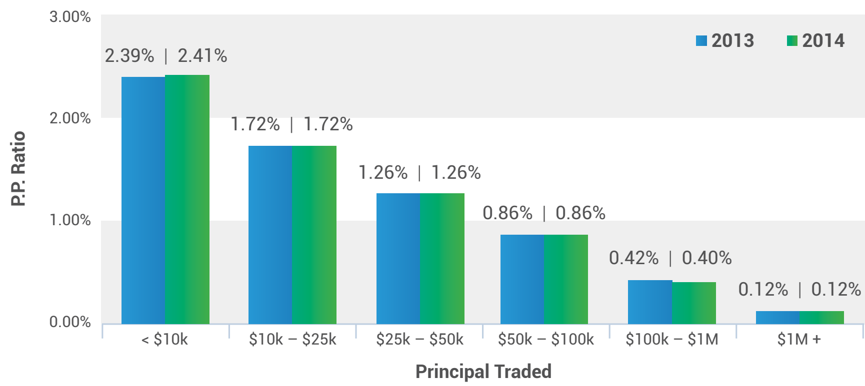
	2014
Fee RoA	1.02%
Fee Average Account	$292,759
Transactional RoA	0.53%
Average Transactional Account Assets	$228,604

Transactional Pricing

Transactional pricing was lower in 2014, with a drop in total "price-to-principal" (equity transactional revenue as a percentage of principal traded) of 13 basis points year over year. The average commission as a percentage of trade principal was 0.99% in 2014, compared to 1.12% in 2013. Most of the decline can be explained by the fact that trade sizes increased in 2014 and larger trades generally command lower commission rates. The average trade size increased from $22,700 in 2013 to $26,800 last year. Overall, the average advisor traded $8.9 million in principal, up from $8.1 million in 2013.

Overall, the average advisor traded $8.9 million in principal, up from $8.1 million in 2013.

Equity Price to Principal Ratio



	2011	2012	2013	2014
Price to Principal	1.07%	1.09%	1.12%	0.99%
Average Trade Size	$23,150	$22,238	$22,729	$26,849
Average Principal Traded ($mm) / FA	$8.9	$7.7	$8.1	$8.9

IMPROVED CLIENT RETENTION

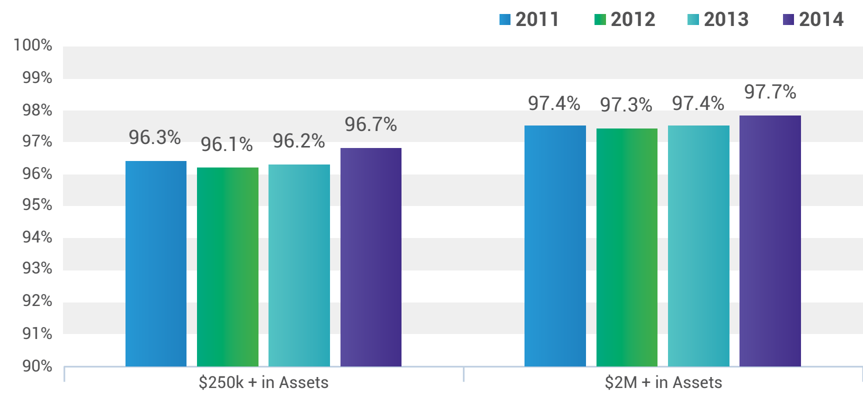
Business growth of course is not just a function of adding new clients but keeping the ones you already have. Last year was a strong year in this regard as client retention improved among two significant groups, priority clients and premium clients.

Among priority clients, those with more than $250,000 in assets, retention rose from 96.2% in 2013 to 96.7% in 2014. Retention among premium clients, who have more than $2 million in assets, rose from 97.4% to 97.7%.

Even though these increases were modest, the underlying fact that advisors are retaining clients at these high levels is a very favorable indicator for the industry.

Business growth of course is not just a function of adding new clients but keeping the ones you already have. Retention among premium clients, who have more than $2 million in assets, rose from 97.4% to 97.7%.

Client Retention



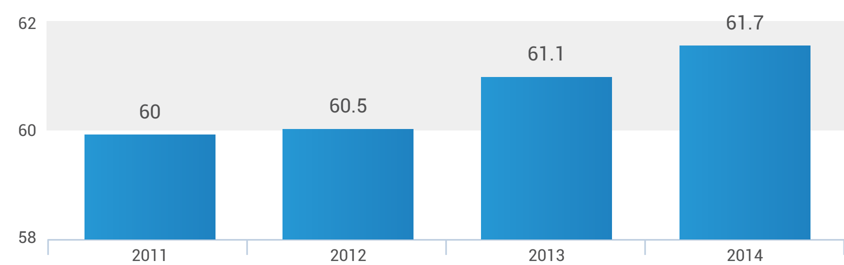
Aging Client Base

The average age of retail clients continues to climb at a rate of roughly six to seven months per year. One of the reasons is that advisors, even younger ones, are continuing to focus their efforts on attracting older clients, who typically have higher assets and yield more revenue. The data plainly show advisors are not attracting younger clients. The proportion of new clients under 45 years of age remains at 23%, a level that has not changed since 2011.

In our latest Insights report, **The Fountain of Growth: Demographics and Wealth Management**, we outline the profound effect an aging client base can have on growth prospects for the industry and we spell out some of the strategies advisors can use to attract younger clients without sacrificing current revenue.

Advisors are continuing to focus their efforts on attracting older clients.

Average Client Age



STRONG RESULTS TODAY—FUNDAMENTAL CHALLENGES ON THE HORIZON

The retail wealth industry enjoyed a strong year in 2014, as advisors sharply increased revenue, improved their recurring revenue streams and pushed assets under management to record levels. Productivity as measured by RoA was stronger, client retention rose, fee pricing improved and the amount of fee-based business advisors manage increased significantly.

At the same time, though, the industry continues to face challenges. Clients are getting older and neither firms nor their advisors are attracting younger ones, thus threatening future growth. There is also a growing gap between successful advisors and underperformers, a phenomenon that should require some attention.

Advisors and firms have much to consider:

- How can we raise the productivity of underperforming advisors?
- How do we better serve the needs of the growing number of clients who have both fee and transactional accounts?
- How should the industry address the pricing difference between fee-based and transactional-based business?
- How can the industry maintain pricing stability?
- How many clients can or should an advisor have? What is in the best interest of the client?
- How do we deal with an aging client base and its impact on future growth?
- What are the biggest threats to revenue growth and profitability?

At PriceMetrix, we look forward to helping advisors and firms deliver more value to clients in 2015, and for years to come.

PriceMetrix®

REALIZE YOUR VALUE