

FOR TOP ADVISORS, A BANNER YEAR IN NORTH AMERICAN WEALTH MANAGEMENT

THE STATE OF RETAIL WEALTH MANAGEMENT



PriceMetrix[™]

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7TH ANNUAL REPORT

In this latest edition of our annual State of Retail Wealth Management, we examine the business performance of full-service financial advisors (FAs) at North American retail wealth management firms.





Financial advisors at North American wealth management firms continued to ride the high tide of well performing markets in 2017.

Advisors delivered record highs in terms of assets managed and revenue generated. They deepened existing relationships and accelerated their shift away from transactional business and toward asset-based fees. In addition, increasing numbers of advisors are teaming up – a model that delivers better results for clients and faster growth for advisors.

At the same time however, advisors continued to struggle with adding new client relationships, particularly with younger investors. And price levels – for both fee-based and transactional business – continued a multi-year decline.

In this latest edition of our annual State of Retail Wealth Management, we examine the business performance of full-service financial advisors (FAs) at North American retail wealth management firms. How are their businesses changing? What opportunities and challenges lie ahead?

This report is based on insights drawn from PriceMetrix' proprietary database, representing more than 20 North American wealth management firms, that service more than 12 million retail investors with over \$6 trillion in assets under management. PriceMetrix' data set, collected monthly from each firm's book of record, is the most comprehensive and granular of its kind, covering over one-third of retail assets managed by full-service financial advisors. Unless otherwise noted, all data is reported as of December 31, 2017.

2017 Highlights

- ▶ Record highs in both assets and revenues per advisor, driven largely by market performance.
- ▶ Deepening of client relationships, with more products per household.
- ▶ Accelerating increase in the proportion of fee-based revenues and assets.
- ▶ Continued stagnation in the number of new client relationships, with no improvement in penetration of 'next generation' assets.
- ▶ Prices declined for both fee and transactional product lines; but lowering prices has generally proved to be an ineffective strategy for driving growth.

Assets and Revenues Per Advisor Hit Record Highs

Assets managed per advisor grew by 15% to a record \$106 million in 2017. This significant and predominantly market-driven¹ asset growth resulted in a corresponding increase in revenues, helping advisors turn around a multi-year decline. Median revenue per advisor was \$655,000 in 2017, up 12% year over year.

Median Assets per Advisor (million)

2014	2015	2016	2017
\$91	\$87	\$92	\$106

Median Revenue per Advisor (thousand)

2014	2015	2016	2017
\$606	\$591	\$583	\$655

1. MSCI world index grew 22.4% in 2017

Growth in Fee-Based Revenue is Accelerating, Especially in Discretionary Accounts

Financial advisors have been steadily increasing the percentage of revenues from asset-based fees. The percentage of fee-based revenue jumped from 54% to 63% between 2016 and 2017, and assets that were in fee-based accounts rose from 37% to 46%.

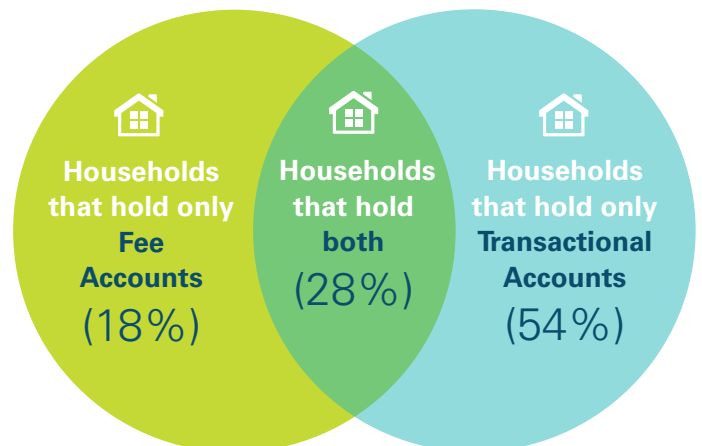
	2014	2015	2016	2017
Fee-Based Revenue	46%	49%	54%	63%
Fee-Based Assets	31%	33%	37%	46%
Percentage of Households with Fee Accounts	29%	31%	36%	46%

Currently, 46% of households have at least some fee-based business, up from 29% in 2014. That said, we are far from seeing the end of the transactional business model. Today, 54% of advisory relationships still have no fee-based accounts at all, and even amongst the 46% of households that have fee accounts, more than 60% of those have transactional accounts as well.

One of the fastest-growing account types is discretionary, where advisors can make investment decisions on behalf of clients. By year end 2017, 15% of assets were in discretionary accounts, up from 10% in 2014.

Assets in Discretionary Accounts

2014	2015	2016	2017
10%	11%	12%	15%



New Client Growth Is Flat

Despite tremendous asset and revenue growth, advisors continue to struggle with new client relationships. After several years of decline in the number of new households added per advisor, 2017 did see a very modest uptick, with 7.6 new relationships per advisor, up from 7.5 in 2016.

New Household Relationships per Advisor

2014	2015	2016	2017
8.1	7.7	7.5	7.6

Hiding behind the aggregate statistics, though, is a wide range in performance from advisor to advisor. The top quartile, or 25% of advisors who added the most new households in 2017, added 17 on average, compared to just one household added for the bottom quartile. Previous PriceMetrix research² shows that both top and bottom performers look relatively similar in terms of tenure, geography, price level, and book demographics. With such a wide gap between high- and low-performing advisors, and a strong link to overall practice growth, it's no wonder that more and more firms are incorporating new client acquisition as a metric in their compensation plans.

2. Organic Growth Insights, PriceMetrix 2017

Households Added in 2017



Deeper Client Relationships Support Growth

While advisors have struggled to add new client relationships, they are servicing existing clients in more ways. Sixty-one percent of advisor households now have multiple accounts with their advisor, up from 57% in 2014; the average household has 2.9 accounts, a steady rise from 2.6 in 2014. In addition, 70% of retail wealth management relationships include a retirement account, up from 64% in 2014.

These improvements in relationship depth have helped advisors maintain and grow their current-year revenue levels, even though they are working with fewer clients. In addition, previous PriceMetrix research³ shows that deeper relationships help improve client retention levels, which should bolster advisor growth rates in years to come.

	2014	2015	2016	2017
Proportion of Multi-Account Households	57%	58%	59%	61%
Median Accounts per Household	2.6	2.7	2.8	2.9
% of Households with Retirement Accounts	64%	65%	67%	70%

3. Stay or Stray, PriceMetrix 2014

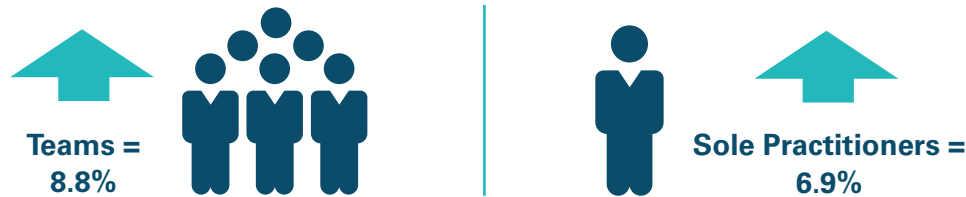
Teaming Up

The percentage of advisors who work as part of a team continues to rise from 56% in 2014 to 61% in 2017, as firms increasingly encourage advisors to work together. And it's no wonder: in our recent PriceMetrix study of teams, *A Winning Formula*, the data shows definitive benefits to working in teams, including faster growth. From 2015 to 2017, teams grew revenue by 8.8%, compared to 6.9% growth for sole practitioners.

Percent of Advisors Who Work as Part of a Team

2014	2015	2016	2017
56%	58%	60%	61%

2015 - 2017 Revenue Growth



The Price for Wealth Advice Continues to Decline...

Pricing on fee-based accounts continued to slide in 2017. For households with \$1 million to \$1.5 million invested, fee account pricing dropped from 1.13% in 2016 to 1.08% in 2017. The drop was a result of advisors lowering fees for both existing and new client accounts. Fees for new accounts are lower than for existing accounts, and continue to fall, from 1.07% in 2016 to 1.04% in 2017.

The drop in fees affected households of all sizes, with steeper declines for smaller households.

Average Fees for Households with Managed Assets of \$1 Million to \$1.5 Million

2014	2015	2016	2017
1.16%	1.16%	1.13%	1.08%

Fees on New Accounts (Last 12 Months) for Households with Managed Assets of \$1 Million to \$1.5 Million

2014	2015	2016	2017
1.13%	1.12%	1.07%	1.04%

Year over Year (2016-2017) Pricing Change for Different Household Sizes

Households Assets Managed	Change in Fees
\$0.5 million to \$1 million	-3Bps
\$1 million to \$1.5 million	-5Bps
\$1.5 million to \$2 million	-2Bps
\$2 million to \$3 million	-2Bps
\$3 million to \$5 million	-2Bps

Commission price levels also continue to decline. Overall, transactional revenues as a percentage of assets fell from 0.44% in 2016 to 0.39% in 2017, and are down from 0.51% in 2014. This lower revenue yield is a result of both less trading activity (commissionable trades per advisor are down to 189 per advisor in 2017 from 266 per advisor in 2014), and lower price levels per trade (the average trade cost 1.19% of trade principal in 2017 down from 1.34% in 2014). For equity trades, advisors are now discounting 42% off 'list price' on average, setting a new low watermark for commission price levels.

	2014	2015	2016	2017
Overall Transactional RoA (Revenue as a % of assets)	0.51%	0.50%	0.44%	0.39%
Commissionable Equity Trades per Advisor	266	237	214	189
Transactional Revenue/Trade Principal	1.34%	1.31%	1.26%	1.19%
Average Discount from 'List Price'	36%	37%	39%	42%

But Lowering Price to Drive Growth Is Generally Not Effective

Overall in 2017, advisors realized revenue growth, while prices continued to decline. To understand the relationship between the two, we looked specifically at advisors who lowered prices in 2017. Surprisingly, only 30% of advisors lowered price levels year over year, while 70% percent maintained or even increased prices. The advisors who lowered their price experienced lower growth than those who maintained or increased their price, and attracted fewer new fee assets. Lowering price to add assets and drive growth is generally not an effective strategy.

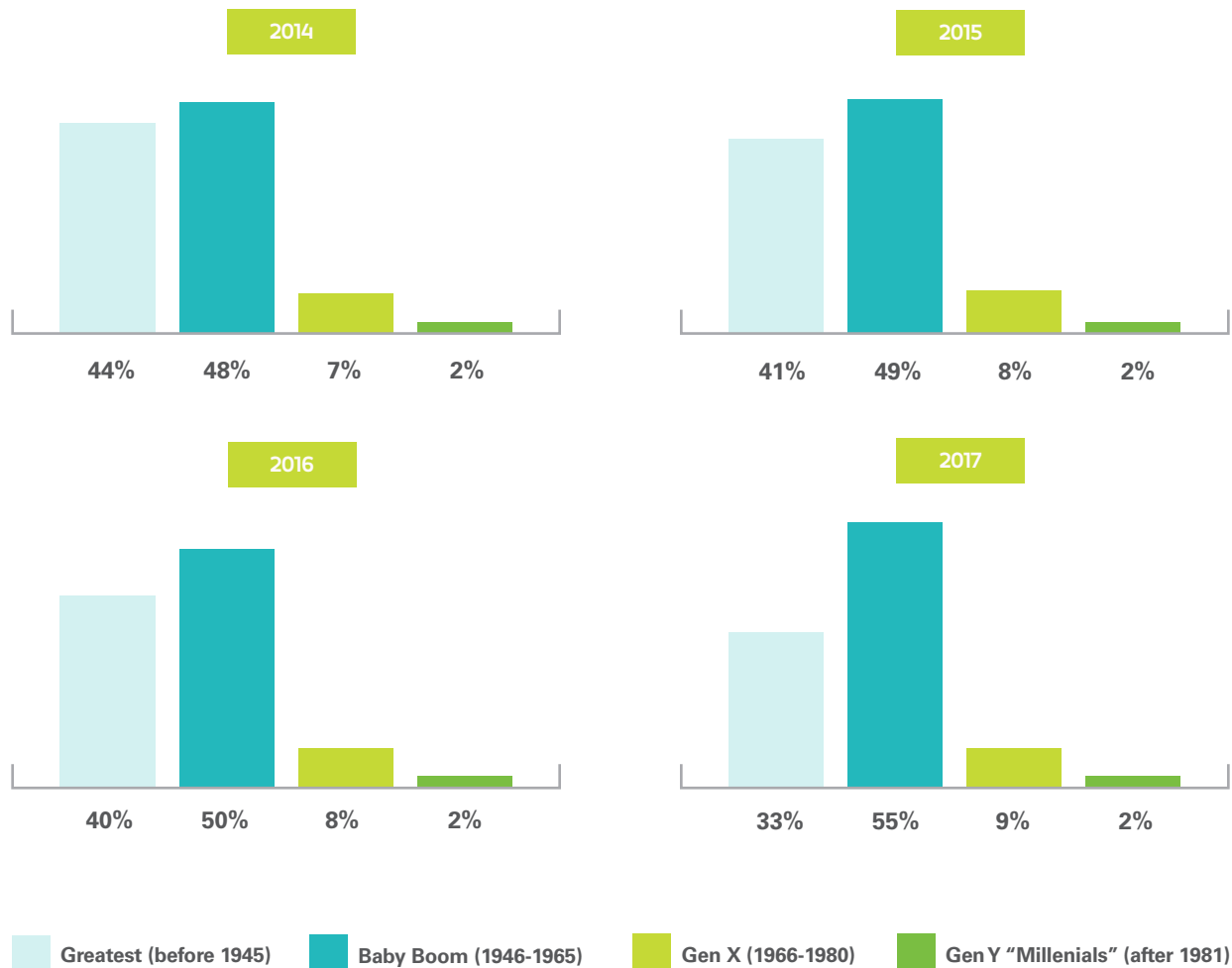
	Lowered Price	Maintained/ Increased Price
Average Price Change from Last Year	-23bps	+4 bps
Percent of FAs	30%	70%
Revenue Growth	9.4%	12.0%
New Fee Assets per FA	\$6.9M	\$7.8M



Boom(er) Times

Demographic changes continue to influence the makeup of advisor businesses. The percentage of assets controlled by Baby Boomers (born 1946-1965) has risen to 55% from 46% in 2014. At the other end of the spectrum, advisors have seen no growth in the percentage of assets controlled by Millennials (born 1981-1995). This 'next generation' of clients represents a paltry 2% of assets, and that percentage hasn't changed in four years.

Generational AUM



Due to low penetration of younger generations the average age of wealth management clients is climbing. Clients were, on average, 64.2 years old in 2017, up from 63.6 in 2014.

While money is gradually shifting to younger generations, the lack of new account openings and the climbing average client age are early signals that without market appreciation, advisors could face significant headwinds in the future with respect to asset growth.

Average Client Age

2014	2015	2016	2017
63.6	63.8	63.9	64.2

Achieving Breakaway Growth

	Low Growth Advisors ⁵	High Growth Advisors ⁶
Fee Revenue Ratio	49%	56%
Assets in Discretionary Accounts	12%	16%
Number of new HHs Added	6	9
Percent of Assets from Generations X and Y	6%	8%
Percent that Work as Part of a Team	57%	65%
Percent that Lowered Price in 2017	37%	25%

5. Bottom 25% based on YOY revenue growth. Revenue growth between 2016 and 2017 was 8 percent on average.

6. Top 25% based on YOY revenue growth. Revenue growth between 2016 and 2017 was 37 percent on average.



Despite record asset and revenue levels, a wide and growing gap separates high- and low-growth advisors. The top quartile of advisors (the 25% who grew the most, year over year), increased their revenues by 37%, while the bottom quartile actually saw revenues decline by an average of 8%. Looking at advisors who grew the most in 2017, certain characteristics stand out. A higher percentage of their revenue comes from fees, and they are more likely to manage assets on a discretionary basis. They added 50% more household relationships in 2017, and have had more success in attracting younger investors. They are more likely to work as part of a team than as a sole practitioner. And perhaps, most notably, they were far less prone to lowering fees in 2017.

The growth of advisors, and ultimately the growth of their firms, is a result of individual skills and decision-making – both of which can be invested in and improved. Executives looking to unlock breakaway organic growth require an end-to-end organic growth playbook. This playbook should include client acquisition and servicing programs like next generation sales enablement, CRM and digital marketing, as well as programs that build skills and improve decision-making, such as analytics-based practice management programs, behavior-based compensation plans, and capability-building initiatives for field managers.



Market performance propelled North American financial advisors to record levels of assets under management and revenue production in 2017. Advisors continued to improve the depth of the relationships they manage; more are working in teams, and a growing number of clients are paying their advisors asset-based (rather than transaction-based) fees. All these trends indicate healthier and more enduring client relationships.⁷

At the same time, many advisors are struggling to find new clients, and overall, the advisor channel is not growing its share of Gen X or Gen Y assets. In addition, many advisors are succumbing to the pressures of discounting, with 30% lowering their fees last year. These trends point to a more troubling future – one where market growth is not enough to offset declines in pricing and new business development.

Advisors operate in a constantly changing environment; how they respond to change can greatly affect their outcomes, and ultimately, the financial performance of the firms they work for. The good news for wealth management firms is that a large portion of advisors are thriving. More than ever, wealth management executives need to identify and encourage the behaviors and characteristics of advisors that result in healthier client relationships and faster growth.

7. Stay or Stray, PriceMetrix 2014

Leading advisors – those that consistently grow organically, independent of market performance – share some basic, but powerful, characteristics:

- ▶ They have a strong focus on retirement, taking proactive steps to capture or protect wealth that is set in motion during this key inflection point.
- ▶ They address client needs, particularly as they move from wealth accumulation to decumulation in their retirement years.
- ▶ They focus on the next generation, encouraging clients to list beneficiaries and trustees so they can build relationships early on.
- ▶ They base pricing decisions on facts, not gut feel.
- ▶ They expand their business practices to include teams of advisors serving a wider range of client needs.



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