1st Annual Report

THE STATE OF RETAIL WEALTH MANAGEMENT

PriceMetrix®

REALIZE YOUR VALUE

PRICEMETRIX *INSIGHTS* SPECIAL EDITION, FEBRUARY 2011

INTRODUCTION

Welcome to the inaugural report on the state of retail wealth management in North America. In this special edition of *Insights* we examine multi-year results for key industry performance indicators and reveal several trends, including:

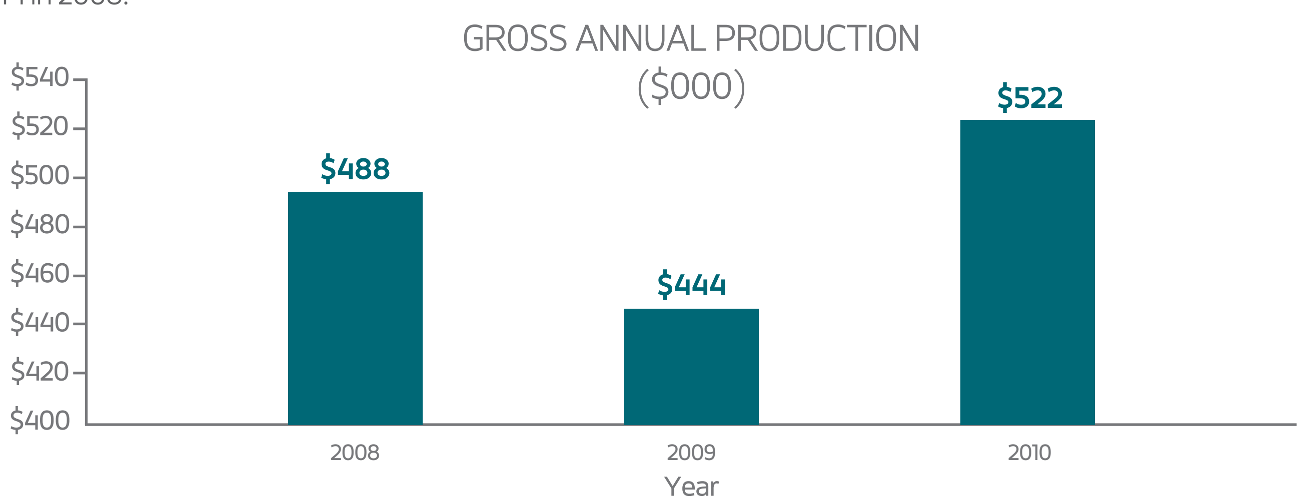
- Advisor asset and revenue levels have reached record highs;
- Advisors are focusing their books on larger, more productive households;
- Fee-based accounts are growing but pricing is under pressure; and
- Transactional business has achieved a solid recovery from 2008 in terms of volume and pricing.

This report is made possible by PriceMetrix aggregated retail brokerage data representing 2.3 million investors, 380 million transactions, 1 million fee-based accounts, 4 million transactional accounts, and over $850 billion in investment assets. PriceMetrix is the only source for longitudinal aggregated retail wealth management market data in North America.

All results are reported as of December 31. Unless otherwise noted, growth rates reported in this paper are determined by percentage change from 2008 to 2010. 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.

ADVISOR ASSET AND REVENUE LEVELS HAVE HIT RECORD HIGHS

Advisor asset levels and annual gross production have rebounded from the market downturn of 2008/2009 (Table 1). Indeed, average advisor assets reached a record high of $71.5 million in 2010, though only an 8% increase over 2008. Average advisor production also posted an all-time high at $522,000, representing a 7% increase over 2008 levels and an 18% increase over 2009. Top producers saw even more growth – the average top producer[1] grossed $1,243,000 in 2010, up 11% from $1,124,000 in 2008. RoA (12 month total revenue/12 month average assets) appears to be stabilizing, holding steady at 73 basis points (bps) from 2009 to 2010 (and down only slightly from 74 bps in 2008). New business activity is showing continued strength in 2010 with 22 new accounts opened per advisor, up from 14 in 2008.



[1] Top 10% of advisors in North America.

Table 1: Advisor Trends[2]

Advisor Performance	2008	2009	2010	Growth Since 2008
Advisor Assets ($M)	$66.2	$60.5	$71.5	8%
Gross Annual Production ($000)	$488	$444	$522	7%
Top Producers' Production (top 10% of advisors, $000)	$1,124	$1,034	$1,243	11%
RoA (12 month total revenue/12 month average assets)	0.74%	0.73%	0.73%	-1%
New Accounts Opened per Advisor	14	25	22	57%

ADVISORS ARE FOCUSING ON LARGER, MORE PRODUCTIVE HOUSEHOLDS

Overall, advisors are improving the quality of their books by stemming the influx of new small[3] households. The result is a 4% reduction in the overall number of households per advisor from 2008 to 2010. The proportion of small households in the average advisor's book has dropped from 56% in 2008 to 45% in 2010. Driven largely by this reduction in small households, advisors have experienced a 20% increase in average household revenue from 2008 to 2010 and a 6% increase in the percentage of households with more than 1 account (Table 2). In contrast, the subset of advisors who maintained or increased their concentration of small households experienced only a 4% increase in average household revenue and no change in the percentage of households with more than 1 account.

As explored in previous editions of *Insights*, these results reinforce the strong will and growing effectiveness of advisors in addressing the small household challenge. Clearly, advisors are becoming more diligent at focusing their businesses on households that are sizeable and more productive.

[2] Based on PriceMetrix ValueOne aggregated database.
[3] Households with less than $50,000 in assets.

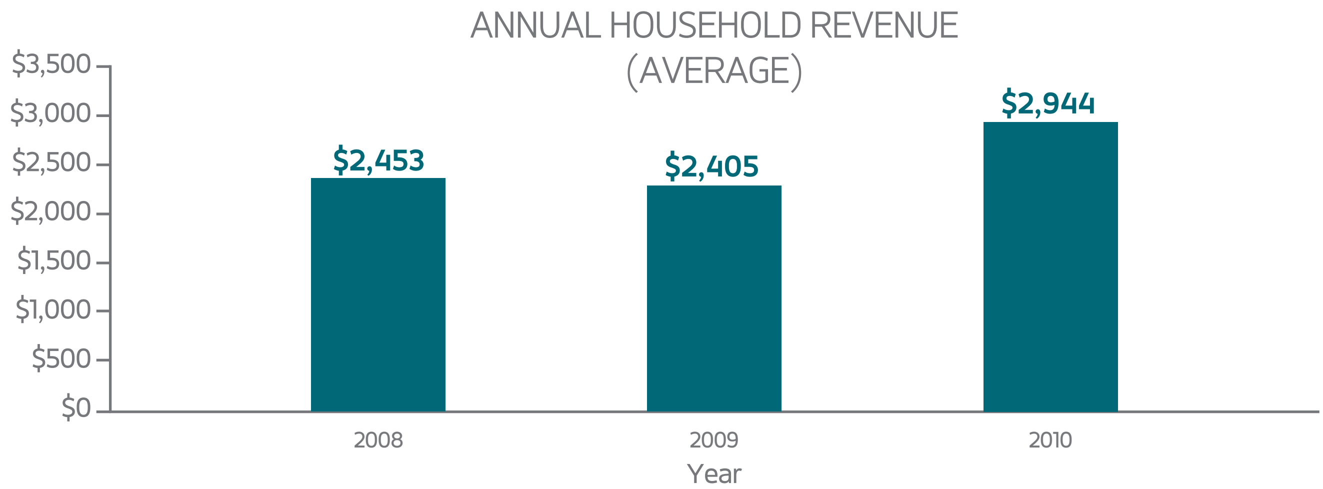


Table 2: Household Trends[2]

Household Quality	2008	2009	2010	Growth Since 2008
Households per Advisor	202	201	193	-4%
Households with Less than $50,000 in Assets (percentage)	56%	50%	45%	-20%
Annual Household Revenue (average)	$2,453	$2,405	$2,944	20%
Households with More than 1 Account (percentage)	51%	52%	54%	6%

FEE-BASED ACCOUNTS ARE GROWING; PRICING IS UNDER PRESSURE

The significant efforts by advisors to build their fee-based business are reflected in the growth of fee-based accounts from 2008 to 2010 (Table 3). The average number of fee-based accounts per advisor has grown by 43% over the three years, and now sits at 76. Fee-based assets, as a percentage of total assets, have also risen from 19% to 24% over the past two years. While this is encouraging, the 15% decrease in fee-based accounts priced above 1% is not. Nor is the overall drop in fee RoA from 1.41% of assets in 2008 to 1.32% in 2010. There is clearly downward pressure on fee-based product pricing, though some recovery has taken place from 2009 to 2010. That said, 32% of advisors were able to raise their overall fee RoA by at least 10 bps from 2008 to 2010. Our next edition of *Insights* will explore fee-based asset pricing in detail.

[2] Based on PriceMetrix ValueOne aggregated database.

FEE ASSETS AS A PERCENTAGE OF TOTAL ASSETS

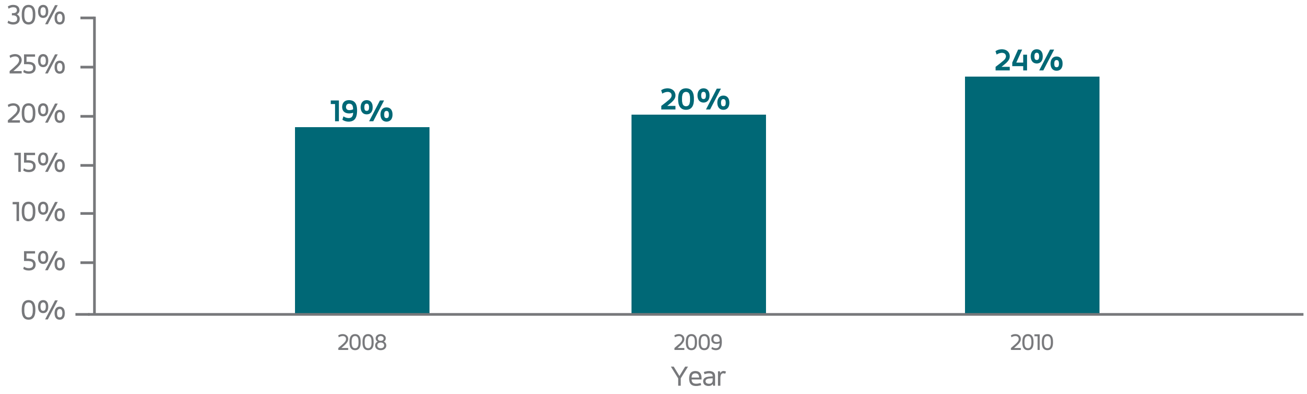


Table 3: Fee-Based Business Trends[2]				
Fee Business[4]	2008	2009	2010	Growth Since 2008
Fee Accounts per Advisor	53	61	76	43%
Average Fee Account Size ($000)	$289	$249	$255	-12%
Fee Assets as a Percentage of All Assets	19%	20%	24%	26%
Fee Accounts Priced Above 1%	71%	62%	60%	-15%
Fee RoA	1.41%	1.31%	1.32%	-6%

TRANSACTIONAL BUSINESS HAS EXPERIENCED A SOLID RECOVERY FROM 2008

The significant growth in fee-based business does not appear to have been at the expense of transactional business (Table 4). Transactional volume has returned to pre-downturn levels with average annual equity trades per advisor at 457, surpassing 2008 levels and up 13% over 2009. Contrary to popular belief, trading investors did not flee the market 'en masse' after the financial crisis. Annual trades per household declined by only 3% in 2009, and remained unchanged in 2010, with buys surpassing sells through the entire period.

[2] Based on PriceMetrix ValueOne aggregated database.

[4] For this analysis we define the scope of fee-based accounts to include separately managed accounts and advisory accounts (both with and without advisor discretion). Third party management fees are not included as part of RoA, though non-fee revenue in fee accounts (e.g. new issues) is.

A 9% decline in the average equity trade principal may be partially explained by a decline in share prices. The average ticket, however, has increased from $224 to $231, resulting in significantly improved price levels – a positive sign for the industry. While the proportion of trades executed at full ‘list price’ continues to decline (perhaps more a reflection of a continued loss of confidence in the structure of firms’ price schedules), the proportion of trades priced below $100 has remained constant. Perhaps the greatest overall measure of pricing health for the industry is that 32% of advisors raised their equity transactional price levels by at least 10% from 2008 to 2010.

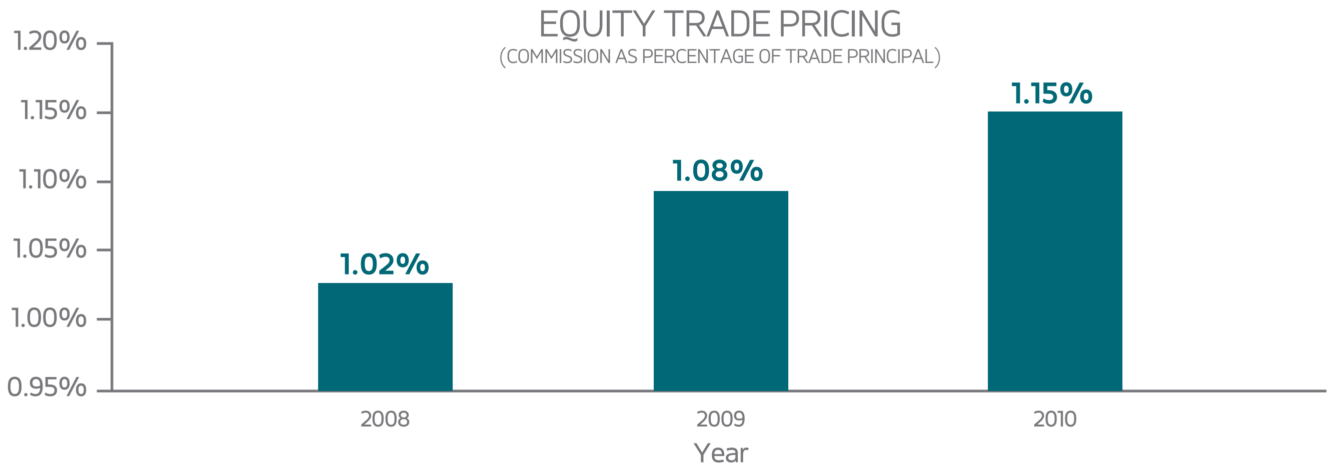


Table 4: Retail Transactional Trends[2]

Transactional Business	2008	2009	2010	Growth Since 2008
Equity Trades per Advisor	446	417	457	2%
Equity Trades per Household	3.1	3.0	3.0	-3%
Buys	51.2%	52.9%	52.2%	2%
Average Equity Trade Principal	$21,932	$20,744	$20,060	-9%
Equity Trade Pricing (commissions as a percentage of principal)	1.02%	1.08%	1.15%	13%
Average Equity Ticket	$224	$224	$231	3%
Percentage of Equity Trade Commissions Priced at Full Firm Schedule ('list price')	34.7%	34.3%	32.2%	-7%
Percentage of Discounted Equity Trade Commissions Priced Below $100	17.4%	17.5%	17.6%	1%

GENERAL HEALTH OF THE INDUSTRY IS IMPROVING

The analysis in this paper indicates that the general health of the retail wealth management industry is improving. In many areas it has recovered from the downturn of 2008/2009 to record performances in 2010. Two thirds of the performance indicators we examined show improvement during this time period. Assets are up, production is up and transactional pricing is better. Advisors are growing their fee-based business, saying 'no' to small households, and building more productive household relationships.

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***, or to offer suggestions for future topics, please contact Doug Trott, President and CEO of PriceMetrix, at 416-955-4498 or Doug.Trott@pricemetrix.com.

[2] Based on PriceMetrix ValueOne aggregated database.

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, Chris May, Director, Product Management.

PriceMetrix®

REALIZE YOUR VALUE