THE STATE OF RETAIL WEALTH MANAGEMENT

3rd Annual Report

PRICEMETRIX *INSIGHTS* SPECIAL EDITION, FEBRUARY 2013

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INTRODUCTION

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

- Return to growth in both advisor assets and revenue;
- Revenue growth is suppressed by a continued decline in equity trade volume;
- Continued transition to a fee-based model, though the rate of transition has slowed;
- Pricing on new fee-based accounts weakened; and
- Advisors are focused on growing and deepening relationships with larger clients.

This report is made possible by PriceMetrix aggregated data representing 7 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.

All results are reported as of December 31, 2012. 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.

The health of the retail wealth management industry remains robust. Advisor assets and revenue show year-over-year increases, as do the percentage of fee and managed assets and revenue, and the proportions of households with retirement accounts. Fee-based business continues to grow, but there are signs of weakness in new fee-based account pricing.

2012 - A RETURN TO GROWTH

After decreasing between 2010 and 2011, average advisor assets grew from $74.0 million in 2011 to $80.8 million in 2012. Annual gross production also grew from $537,000 in 2011 to $550,000 in 2012. Growth in assets outpaced growth in production, however, meaning that overall revenue on assets (RoA) decreased from an average of 0.72% in 2011 to 0.69% in 2012.[1]

FIGURE 1

	2010	2011	2012	Change 2011-2012
Average Advisor Assets (M)	$79.3	$74.0	$80.8	9%
Average Advisor Revenue (000s)	$533	$537	$550	2%
Average Revenue on Assets (%)	0.73	0.72	0.69	-3%

DECLINING TRANSACTIONAL TRADING VOLUME, CONSISTENT PRICING

Declining equity trade volumes were explored in a recent PriceMetrix *Flash of Insight*, and stands as one of the key themes of 2012. We noted that trading volumes in retail investment markets have not declined to the same extent as overall capital markets. Still, both average principal traded and the average number of equity trades in transactional accounts saw a significant decline between 2010 and 2011, and this trend accelerated in 2012. From 2011 to 2012, annual principal traded per advisor declined from an average of $8.9 million to $7.7 million, representing a decrease of 13%; the average number of trades declined from 386 to 346, representing a decrease of 10%. These trends are, in part, accounted for by the shift by many advisors to the fee-based business model, discussed later in this document.

In spite of these trends, average equity trade size decreased only slightly from $23,150 to $22,240. Advisors also remained consistent in their pricing overall, with the average commission discount remaining unchanged between 2011 and 2012 at 35%.

[1] Average assets are end-of-year spot assets. Revenue on assets is calculated using average advisor revenue and 12-month rolling average advisor assets.

FIGURE 2

	2010	2011	2012	Change 2011-2012
Equity Trades Per Advisor	461	386	346	-10%
Average Trade Size	$20,130	$23,150	$22,240	-4%
Average Total Principal Traded (M) / Advisor	$9.3	$8.9	$7.7	-13%
Average Ticket Size	$232	$248	$242	-2%
Average Discount (%)	34%	35%	35%	No change

CONTINUED, THOUGH SLOWER, TRANSITION TO A FEE-BASED MODEL

Several metrics point to the increasing adoption of the fee-based model – a phenomenon explored in depth in the PriceMetrix *Insights* paper titled *Transitioning to Fee*. The proportion of assets held in fee-based accounts and the proportion of fee-based revenue continues to climb. From 2011 to 2012, fee-based assets increased from 26% to 28%, and fee-based revenue increased from 43% to 45%. The average number of fee accounts per advisor increased from 85 to 92. While the industry clearly continues its deliberate shift to fee, the pace of transition is slower than in recent years.

At the same time, new fee-based accounts are being priced lower than in the past. While new fee-based accounts had an average RoA of 1.12% in 2010 and increased to an average of 1.21% in 2011, the average declined to 1.04% in 2012. Part of this decline can be explained by new fee accounts having greater assets (on average) than in previous years, and a tendency for larger households to generate a lower RoA. The largest decline between 2011 and 2012 is also observed among new fee accounts of $1 million or more. Still, year-over-year variation and weakening in pricing for new fee accounts is seen for all household asset levels.

FIGURE 3	2010	2011	2012	Change 2011-2012
Fee-Based Assets (% of Total Assets)	23%	26%	28%	8%
Fee-Based Revenue (% of Total Revenue)	39%	43%	45%	4%
Fee Accounts Per Advisor	77	85	92	9%
Average Fee Account RoA (%)	1.17%	1.14%	1.06%	-7%

FIGURE 4	2010	2011	2012	Change 2011-2012
Average New Fee Account RoA, overall (%)	1.12%	1.21%	1.04%	-13%
< $250,000 Household Assets	1.54%	1.65%	1.52%	-8%
$250,000 to < $500,000 Household Assets	1.41%	1.49%	1.38%	-7%
$500,000 to < $1M Household Assets	1.32%	1.37%	1.28%	-7%
$1M+ Household Assets	0.93%	1.02%	0.84%	-18%

GROWING AND DEEPENING RELATIONSHIPS WITH LARGER CLIENTS

The data indicate that advisors continue to actively manage the household composition of their books. They are reducing their overall household count while focusing on deepening relationships with their largest clients. The size of households in advisors' books continues to grow, as does revenue per household. Average household assets increased from $435,000 in 2011 to $491,000 in 2012 (an increase of 13%) and the proportion of households with $250,000 or greater in assets increased from 34% to 38% (an increase of 12%). Average annual household revenue has also increased from $3,175 to $3,300 (an increase of 4%).

This has taken place while the average number of households per advisor has decreased – from 165 in 2011 to 159 in 2012.

FIGURE 5

	2010	2011	2012	Change 2011-2012
Average Household Assets (000s)	$422	$435	$491	13%
Households with $250,000+ Assets (%)	34%	34%	38%	12%
Average Household Revenue	$2,950	$3,175	$3,300	4%
Average Households Per Advisor	182	165	159	-4%
Households with Retirement Accounts (%)	67%	69%	70%	2%

The proportion of households with retirement accounts has increased – an important indicator of improvement in overall relationship depth. Since households with retirement accounts produce higher average revenue than those without ($3,400 compared to $2,400 in 2012), this is an important shift that advisors and firms should continue in 2013.

OVERALL STATE OF THE INDUSTRY – 2012

In spite of recent challenges, the health of the retail wealth management industry remains robust. Both advisor assets and revenue show year-over-year increases between 2011 and 2012, as do the percentage of fee and managed assets and revenue, and the proportions of households with retirement accounts. While fee-based business continues to grow, there are signs of weakness in new fee-based account pricing.

The average number of households per advisor continues to decline, as advisors are choosing to focus their business on a smaller number of select households and are deepening their relationships with them.

The continued decline in equity trade volume remains a concern across the industry, as it restrains overall revenue growth. Also, the rate of discounting on equity trades remains unchanged. Reducing the rate of discounting remains a significant area of revenue growth opportunity for firms and advisors.

Advisors are choosing to increase the value of their service – by carrying fewer households, deepening relationships, and increasing their capacity to service remaining clients. They need to ensure that their price level reflects this increase in value.

OPPORTUNITIES FOR ADVISORS & FIRMS IN 2013

We see several positive trends from the past year. Still, there are areas of unrealized potential.

- 39% of households have less than $50,000 in investable assets;
- 42% of households have only one account; and
- the average equity trade continues to be priced at 35% off list price, representing $46,000 of discounts per year for the average financial advisor.

Wealth management firms have a significant opportunity to improve the key drivers of future production. As our recent *Insights* paper *Moneyball for Advisors* discussed, fee production, the number of large households, and depth of client relationships (indicated by high accounts per household and a high number of registered accounts) are metrics that all advisors, managers, and firms should be paying close attention to.

Firms can capitalize on these opportunities by investing in practice management tools that help advisors and managers identify opportunities, set objectives, take action, and track results.

For information about custom benchmarking of your business, or to provide you with feedback on this special issue of *Insights*, please contact John Vervoort, Director, Client Analytics at (416) 955-0514 x225 or john.vervoort@pricemetrix.com.

The analysis 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, Tim Gravelle, Principal Scientist and Director, ***Insights*** Lab, and Mathew Duffy, Client Analyst.

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