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Big Advisors Add Larger Accts But Fees Fall

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By Tom Stabile

Brokerage advisors with more than \$100 million in assets saw a healthy boost in large fee-based client accounts between 2008 and 2010 – but that also may have taken a chunk out of the average fees charged on those accounts. That’s according to data from **PriceMetrix**, a Toronto-based software firm that tracks pricing across 1 million fee-based accounts and \$850 billion overall in investment assets to provide advisors with fee benchmarking tools.

The analysis – which pulled in data from all accounts overseen by advisors who had \$100 million or more in either year – showed the group had an average fee-based account size of \$266,400 in 2008 and \$289,800 in 2010. The fee-based accounts include “wrap” programs, such as separately managed accounts and unified managed accounts, as well as rep-as-portfolio manager platforms and similar offerings, says **Doug Trott**, CEO of PriceMetrix.

Given that the average \$100 million-and-up advisor had 180 fee-based accounts in 2010, but only 156 in 2008, Trott says one can infer that many of the accounts added to the mix were larger, helping to pull up the average account size. He says the new accounts averaged around \$442,000 on a simple arithmetic basis, but factoring in market appreciation and assets added to existing accounts points to a figure that’s probably closer to \$400,000.

“That also could show the advent of UMA business,” he adds, referring to how a client might combine various smaller accounts into a single larger UMA.

It’s also notable that the \$100 million-and-up advisors saw this jump in average account size at the same time that the overall advisor population saw its average fee-based account size drop, from \$289,000 in 2008 to \$255,000 in 2010. Trott says using the same arithmetic, the average size of the new fee-based accounts added in the broader advisor universe was around \$177,000, and probably as low as \$150,000 after accounting for market appreciation.

Another possible source of large new accounts could be wealthy investors who have decided to diversify their portfolios not only among investments, but also among various advisors, says **Patrick Butler**, partner at **Alegro Capital**, a London-based private equity firm, who also formerly worked in **Merrill Lynch**’s wealth management arm. He says clients trying to avoid “provider risk” may be parceling out their portfolios, though he adds that it’s a hard trend to quantify because it’s difficult to trace money that had not previously been invested with an advisor.

Trott says the uptick in large fee-based accounts may well have resulted in lower return-on-assets for fee business in the books of \$100 million-and-up advisors, where “RoA” is their 12-month revenue divided by client assets. The fee-based RoA figure dropped from 1.20% in 2008 to 1.10% in 2010.

That’s likely because of the standard practice in the asset management world to offer lower fees to clients who have larger accounts. “The brokerages have tiered pricing with built-in rewards for size in their pricing,” Trott says. “So, bigger clients may lead to relative lower returns on assets.”

The firm also noted that the number of fee-based accounts run by \$100 million-and-up advisors rose by only 15% between 2008 and 2010, while fee-based accounts handled by the overall advisor population grew by 43% in that same timeframe. Trott says this could signal that larger advisors – who were the early adopters of fee-based business, because they tend to have wealthier clients who can afford big investment minimums – eventually hit a “plateau” where it’s difficult to convert legacy transactional accounts.

“The data shows there is starting to be a slowdown for the larger advisors,” he says. “There may be a saturation point. It may be that some clients will stick with tradition. You’re almost asking someone to change religion, where some clients simply don’t want to pay you a fee ‘to put your feet on the desk.’”

Trott says another trend in the data is \$100 million-and-up advisors charging less on average on fee-based accounts. The data counts fees accruing to the advisor and brokerage, not fees for underlying asset managers.

The data shows a pattern of “fee compression” with only 56% of advisors with \$100 million or more in assets charging more than 1% for fee-based accounts in 2010, down from 66% topping 1% in fees in 2008. That mirrored a similar drop for the overall advisor universe from 71% to 60%, Trott says.

Alegro’s Butler says it’s not surprising that fees dropped from 2008 to 2010, given that clients have moved in a herd away from the equity markets and into lower-risk assets. That can mean a “meaningful revenue hit” because advisors often charge less for such accounts.

“America moved to cash,” he says. “It was a dramatic move out of risk-bearing assets. And advisors are charging on a smaller asset base. So it makes sense that you’re seeing fees go down.”

And even when clients were ready to exit cash, a lot of the money went into corporate or municipal bonds or Treasurys, he says.

“Pricing never trends up unless there is scarcity,” Butler adds. “But part of these fees should partially spring back, because portfolios still have the distortion of how far people went toward conservative asset classes.”

Nevertheless, a shift in asset composition in client portfolios didn't appear to be the driving factor in falling prices in the overall advisor universe, says **Chris May**, director for integrations and analytics at PriceMetrix. He says the firm determined that the fee gap between equity and fixed income accounts didn't explain the entire lower pricing trend.

Trott says he believes the lower fees on average have less to do with the current market cycle, and more with the "pressure to go to one" – an industry phenomenon of advisors and clients alike seeking pricing simplicity and discounts, and trending toward a 1% rate. "It suggests that the price-value equation is getting out of whack, because I don't see any indication that the value provided by [advisors] has decreased," he says.

PriceMetrix's research finds that advisors charge a wide range of rates on fee-based business, with 100 basis points between the top and bottom quartile price levels for accounts with similar properties.