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New Study Shows Wealth Managers Are Reducing Small Household Concentrations

PriceMetrix Says Firms Use Various Approaches, Including Financial Incentives and Service Centers, to Generate Additional Production by Reducing Small Households

November 22, 2010 Toronto, Ontario—In a new study, PriceMetrix, a software firm that helps retail wealth management firms and their advisors optimize selling efforts, manage clients, identify growth opportunities, and enhance practice management, looked at 15 wealth management firms with more than 15,000 advisors and found that all the firms were able to reduce the number of small households as a portion of their overall business over the course of one year, ending in August 2010. The reductions ranged from three to fourteen percent. Further, for every one percent advisors were able to reduce their proportion of small households, they generated approximate \$7,700 in additional annual production.

As part of the study, PriceMetrix also interviewed senior executives at seven of the firms and found they used a variety of approaches to achieve the reductions, including financial incentives and setting up special service centers to which advisors could direct smaller accounts.

“The results are impressive,” said Doug Trott, President and CEO of PriceMetrix. “They reflect a significant amount of attention and, in many cases, substantial resources being applied to the small household challenge.”

In an earlier study released this summer, PriceMetrix reported that small households, which it defines as less \$100,000 in assets, do not justify the expense of servicing them in the traditional manner because there is not much chance they will grow into large accounts. In fact, small households are 108 times more likely to leave an advisor than become a large account.

In its interviews in the current study, PriceMetrix found that senior executives consider small household concentrations to be a serious business challenge and most firms are seeking to help their advisors increase productivity by reducing their proportion of small accounts. Overall, whether companies used mandatory or voluntary small household reduction programs with their advisors, firms with dedicated programs make progress at a faster rate than firms that do not have formal programs in place.

“The key decision is whether to hope time improves small business concentration or to take action and help advisors achieve a better balance of small, medium, and large households,” said Mr. Trott. “Firms and advisors need to be confident about the upside of parting ways with small households. Losing a non-productive client to make room to better serve priority clients will significantly contribute to the health of the business and to the advisors’ books.”

Several firms in the study established service centers with salaried professionals to support small households. For example, one firm set up a center with both salaried and variable compensation advisors who offer small households a limited product line, including mutual funds, bonds, ETFs, money market funds, and managed portfolios. Service center advisors’ target compensation is in the \$100,000 range and consists of salary plus access to a variable pool based on objectives achieved.

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A number of firms used financial incentives, or disincentives, to encourage advisors to reduce the small household concentration in their portfolios. One firm, for example, decided that revenues from small households would not count in a bonus program in which an advisor can receive a firm-compensated full-time sales assistant. Further, if a senior advisor and a junior advisor at the firm are teaming up for the purposes of succession planning, the senior advisor is not permitted to transfer small accounts to the junior advisor.

“Our studies indicate financial incentives work quickly in helping firms reduce their small household concentrations, while service centers do not conclusively help as much,” said Mr. Trott. “What is crystal clear, however, is that firms that have taken the lead in addressing the small account challenge have added approximately \$40,000 per advisor in production.”

PriceMetrix’ report on small households, including the case studies of the seven firms more closely examined, can be accessed at <http://www.pricemetrix.com/public/news/insights.asp>

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About PriceMetrix

PriceMetrix is a software firm that helps retail wealth management firms and their advisors optimize selling efforts, manage clients, identify growth opportunities, and enhance practice management.

Through its exclusive relationships with North American retail wealth management providers, PriceMetrix directly measures aggregated data representing 1.5 million investors, 200 million transactions, 1 million fee-based accounts, and \$800 billion 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. PriceMetrix was recently recognized in the top 250 ICT Companies Listing in the 2010 Branham300.

Our comprehensive data on the business practices of retail investment advisors and their clients inspired the development of the award-winning, patented ValueOne™, our patent pending CommissionCheck™, and our U.S. Market-Based Equity Commission Schedule. FeeCheck™, is the newest practice management innovation from PriceMetrix. It is designed to help retail wealth management firms and their financial advisors make more informed market-based pricing decisions for their fee and managed business.

Founded in 2000, PriceMetrix has its principal place of business in Toronto, Ontario, and services a notable range of clients within the United States and Canada. For more information about PriceMetrix web-based practice management solutions, please contact us at 416-955-0514 or info@pricemetrix.com.