



## Fee and Managed Asset Pricing

### Introduction

Fee and managed business has become a key source of recurring revenue for the retail wealth management industry, and a preferred method of investing for higher net worth clients. A significant amount of attention and effort at both the enterprise and advisor levels has helped to establish this product segment, and the growth rate shows no signs of slowing. This edition of *PriceMetrix Insights* examines key metrics and trends in the pricing of fee and managed (hereafter referred to as fee-based) accounts. The analysis is based on the PriceMetrix aggregated North American database representing 15,000 advisor books, 2.3 million investors, 380 million transactions, 1 million fee-based accounts, and over \$850 billion in investment assets. In this issue of *Insights*, we reveal the following:

- Total fee-based assets are up, driven predominantly by new fee-based relationships;
- Fee-based RoAs (Revenue on Assets) have declined over the past three years, but may be stabilizing;
- There is an incredible variation in the price levels of fee-based accounts, with more than 100 basis points separating top and bottom quartile price levels for similar accounts;
- Geography does not have a meaningful impact on price levels;
- Advisors who deeply discount fee-based accounts do not recoup discounts on their transactional business;
- It is extraordinarily difficult to increase price on an existing fee-based account - only 5% of advisors have demonstrated an ability to achieve a fee increase of at least 10 basis points for existing accounts;
- 32% of advisors, though, are raising their overall price levels – by focusing on the pricing of new accounts opened; and
- The typical advisor leaves \$20,000 in potential fee-based revenue on the table each year.

**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 2.3 million investors, 380 million transactions, 1 million fee-based accounts, 4 million transactional accounts and over \$850 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™ that now includes ClientCheck™, our patent-pending CommissionCheck™, our U.S. Market-Based Equity Commission Schedule, and our patent-pending FeeCheck™, a recent practice management innovation from PriceMetrix.

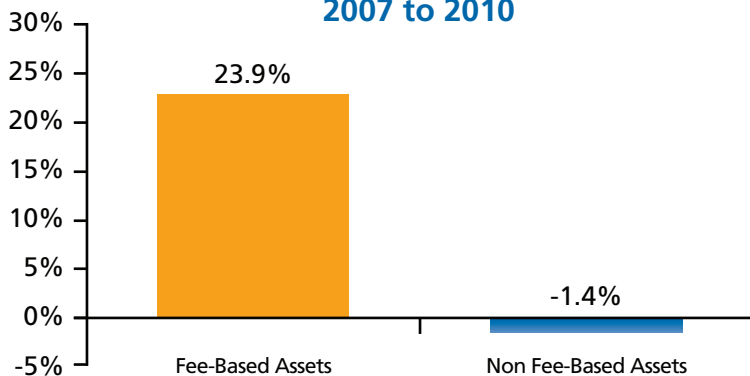
Founded in 2000, PriceMetrix has its principal place of business in Toronto, Ontario, and services a notable range of clients within the United States and Canada. For more information about PriceMetrix web-based practice management solutions, please contact us at 416-955-0514 or 1-866-955-0514, [info@pricemetrix.com](mailto:info@pricemetrix.com), or visit us at [www.pricemetrix.com](http://www.pricemetrix.com).

For the purposes of this paper we define the scope of fee-based accounts to include separately managed accounts and advisory accounts (both with and without advisor discretion). The longitudinal data set analyzed represents 33 products from 5 U.S. and 5 Canadian firms. Accounts opened for at least 12 months were analyzed. PriceMetrix found no significant differences between the U.S. and Canada; therefore, all results presented in this paper are combined. RoA is defined as 12 month revenue from fee-based accounts divided by average 12 month assets in those accounts. (We use a longer period to neutralize short term market fluctuations in account balances.) All revenue associated with fee-based accounts is included (5.6% of revenue in fee-based products comes from other revenue, for example new issues). Third party management fees, if applicable, are not included as part of revenue.

## Fee-Based Assets Are Up

Fee-based products are a large and growing part of the retail wealth management landscape. Within our data set, assets in fee-based accounts make up almost 25% of total invested assets and 37% of total revenue. Over 60% of advisors now have 5% or more of their assets held in fee accounts.

**Chart 1: Asset Percentage Growth  
2007 to 2010**

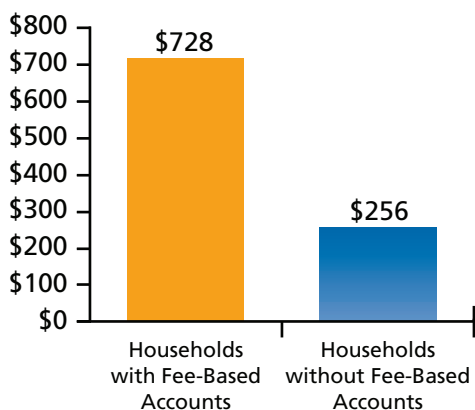


Over the last four years, from 2007 to 2010, the average advisor's assets in fee-based accounts have increased by 24% while transactional assets have declined by 1% as shown in Chart 1. Note that the Dow Jones Industrial Average was down 17% over that same period.

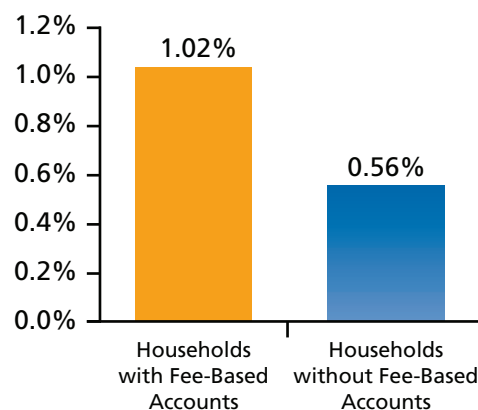
The rate of account openings is increasing with the average advisor

opening 14.5 fee-based accounts in 2010, up from 13.5 in 2009 and 11.5 in 2008. (81% of new fee accounts are opened with brand new client relationships.) Despite the significant growth in the total assets in fee-based accounts, the average fee-based account has declined from \$307,000 to \$255,000 over the same period, predominantly due to market performance.

**Chart 2: 2010 Average Household Assets (000's)**



**Chart 3: 2010 Average Household RoA**



<sup>1</sup>Based on PriceMetrix ValueOne aggregated database.

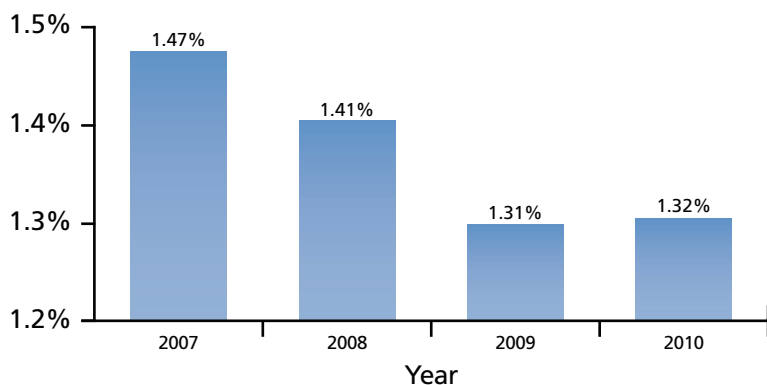
A household with at least one fee-based account has almost three times the investment assets as a non-fee household, as shown in Chart 2. Households with fee-based accounts are more productive with RoAs of 1.02%<sup>2</sup> versus 0.56% in households without fee-based accounts as illustrated in Chart 3.

Clearly, advisors are continuing to turn to fee-based accounts to help build their businesses.

## Fee-Based Price Levels Have Declined Over the Past Four Years

Pricing of fee-based accounts has decreased from 1.47% in 2007 to 1.32% in 2010 as shown in Chart 4. The silver lining is that RoA appears to have stabilized, rising slightly from 2009 to 2010. As noted earlier, average

**Chart 4<sup>1</sup>: Historical Average Fee-Based RoA**



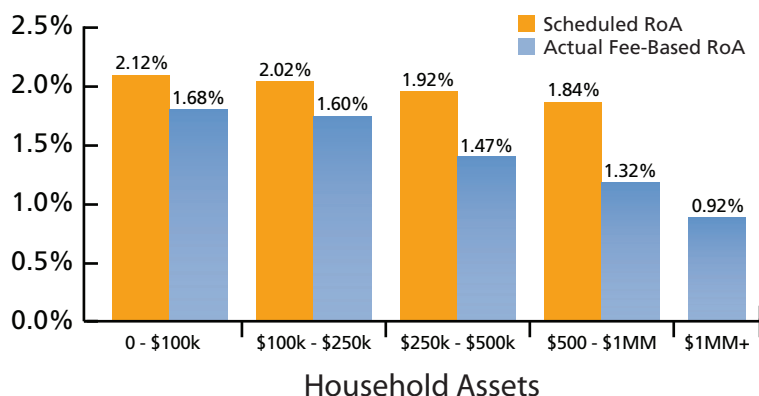
account size has decreased, which would normally produce a higher RoA. Therefore, the decline in account size is not driving the RoA reduction. Asset category weightings (e.g., equities, fixed income, etc.) have remained relatively constant over the same period, so RoA fluctuations appear not to be due to shifts in asset mix either.

As fee-based business becomes a larger portion of the wealth management pie, and with the general downward trend of RoAs, significant attention is being paid by firms to the pricing of fee-based relationships. What is a fair price? What will the market bear? The remainder of this paper provides a window into the market for fee account pricing, and will reveal facts, myths, and opportunities.

## Asset Levels Drive Fee-Based Pricing

What drives fee-based pricing? Most firms publish fee-based price schedules (recommended or 'list' prices) that range from simple flat fees to tiered, graduated pricing separated by asset type. Some schedules are based on account size and others on household size. Chart 5 reveals the average actual and scheduled<sup>3</sup> fee-based RoA by

**Chart 5<sup>1</sup>: 2010 Fee-Based RoA – Influence of Household Size**



household size. Actual RoAs charged by advisors are between 72% and 79% of scheduled prices up to \$1 million, with an average 'discount' of 46 basis points, or \$2,876 per year per household. While there is an expected decline in fee-based RoA as household assets increase, it is surprising that the smallest households receive a 20% discount.

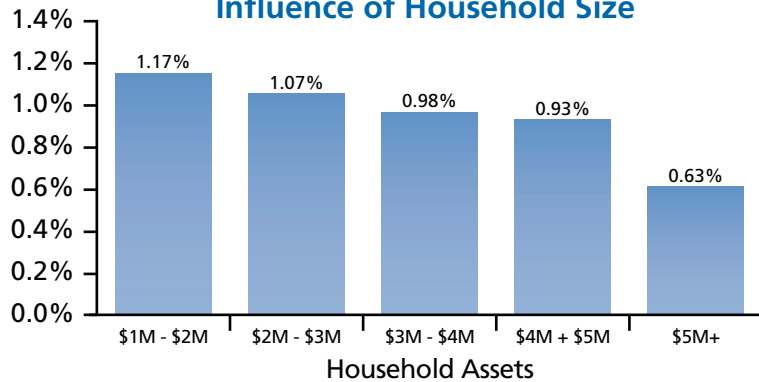
<sup>1</sup>Based on PriceMetrix ValueOne aggregated database.

<sup>2</sup>This household level RoA will include revenue and assets from fee accounts and all other products. All subsequent analyses of RoA in this paper examine only the RoA (pricing) of fee accounts.

<sup>3</sup>Where the scheduled price is a range, we used the midpoint of the range. Most client firms have list prices which are negotiable at the high end of their schedule, and therefore we have not included 'list price' on households with assets greater than \$1 million.

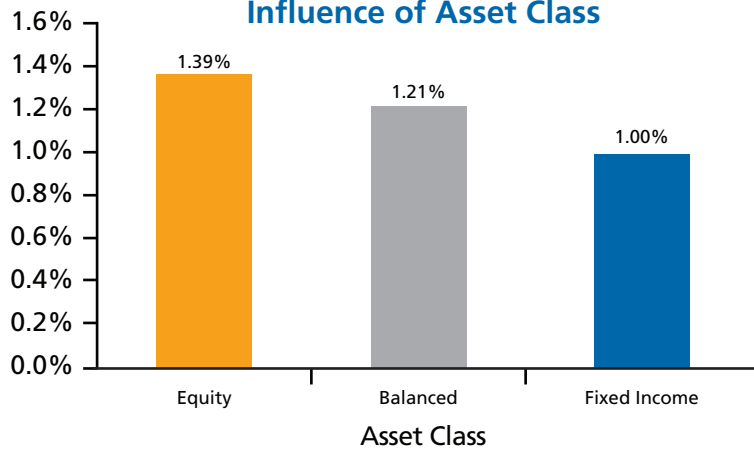
A similar trend exists for households with assets greater than \$1 million as shown in Chart 6. We have heard from some advisors that clients are 'unwilling' to pay more than 1% for a fee-based account. Note that the

**Chart 6<sup>1</sup>: 2010 Fee-Based RoA – Influence of Household Size**



average price falls below the 1% threshold only above \$3 million in household assets.

**Chart 7<sup>1</sup>: 2010 Fee-Based RoA – Influence of Asset Class**

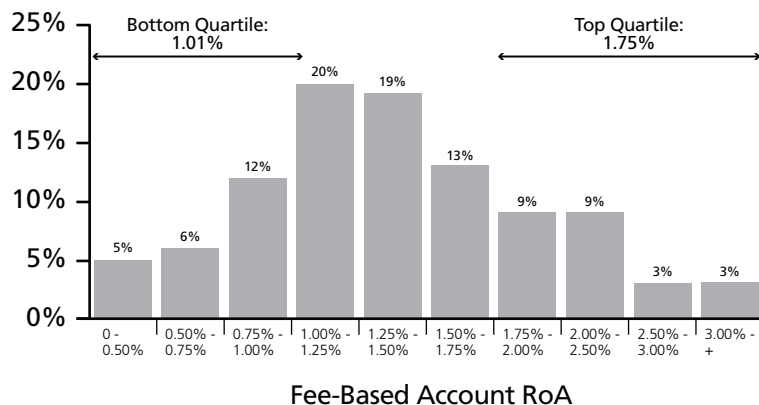


In Chart 7 we examine the impact of asset mix on fee-based RoAs. For this and many subsequent analyses, we have included households with assets between \$250,000 and \$500,000 to neutralize the impact of account size on pricing. This provides a better basis of comparison, eliminating bias from pricing of households of different asset sizes, and represents a significant percentage of households (27% of households with fee based accounts are in this category).

Chart 7 reveals the average RoA for households with equity, fixed income, and balanced asset allocations. Households are defined as equity households if their fee-based assets have more than 60%

in equity assets. Fixed income households are defined as having more than 60% in fixed income assets, with the remainder being considered balanced households. Not unexpectedly, there is a 39 basis point difference in price between equity households and fixed income households, with balanced households holding the middle ground.

**Chart 8<sup>1</sup>: 2010 Fee-Based RoA Distribution**  
Balanced Accounts within \$250,000 - \$500,000 Asset Households

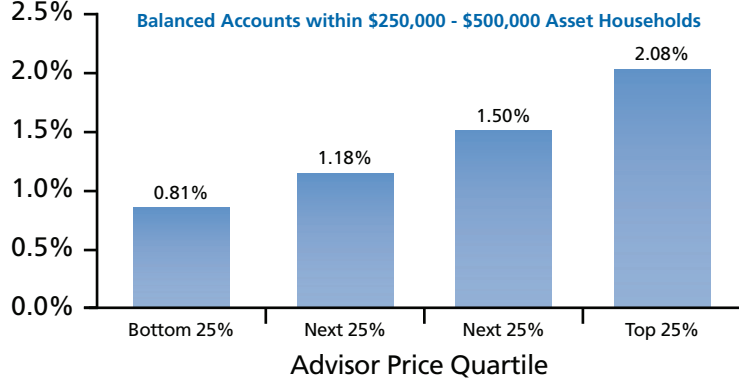


## Significant Variations in Pricing Exist

To determine if there is significant variation in pricing by advisor, we examined the pricing on balanced accounts for households with between \$250,000 and \$500,000 in assets in Chart 8. (This and all subsequent analysis examines balanced accounts within \$250,000

<sup>1</sup>Based on PriceMetrix ValueOne aggregated database.

**Chart 9<sup>1</sup>: 2010 Advisor Average Fee-Based RoA**



- \$500,000 asset households to eliminate any asset allocation or asset size influence on RoAs.) Twenty five percent of advisors charge more than 1.75%, averaging 2.08% on these households; 25% charge less than 1.01%, averaging 0.81%. 127 basis points separate top and bottom pricers as shown in Chart 9. Clearly, there is no equilibrium price being set by competitive forces here. We believe

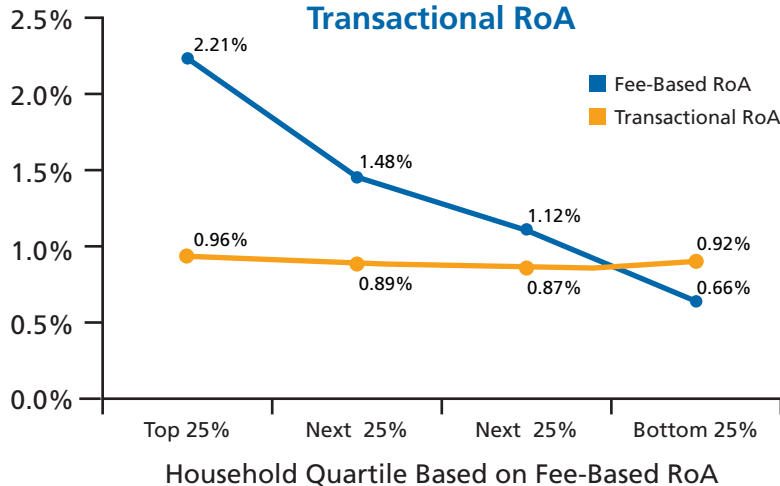
this wide range of pricing exists because advisors lack any credible reference to consider when setting price.

When sharing this information with advisors, we have been challenged with the assertion that the higher priced advisors must be losing business (to the lower priced advisors). We find little evidence of this, supporting a conclusion that clients overall demonstrate a willingness to pay for a strong value proposition. Advisors need to establish their price and stand their ground when responding to requests for discounts, especially when first setting price expectations with clients.

## Fee-Based Discounting is Not Recouped Through Transactional Business

We often hear from advisors that their low fee-based pricing is justified because of the high pricing/revenue they associate with the transactional part of those same households. To investigate this assertion, we analyzed four quartiles of pricing by household (as opposed to by advisor, as above). That is to say we ranked all

**Chart 10<sup>1</sup>: 2010 Fee-Based and Transactional RoA**



households with assets between \$250,000 and \$500,000, based on the fee-based RoA of their balanced accounts, and then analyzed the transactional account RoA of those household quartiles. The premium paying and deeply discounted households have very similar transactional RoAs as seen in Chart 10. There is no evidence that low priced advisors are 'making it up' with higher transactional RoAs. In fact, the slightly lower transactional RoA for the low priced fee accounts suggests that low pricing is habitual.

<sup>1</sup>Based on PriceMetrix ValueOne aggregated database.

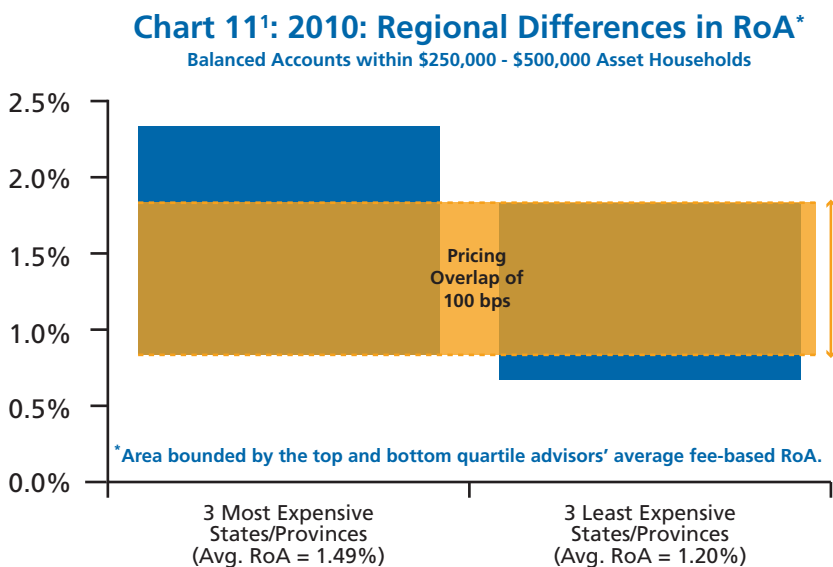
## Little Relationship Between Geography and Pricing

A common industry discussion we observe is that it is more difficult to charge fully for value in specific regional centers. To explore this, we examined the top and bottom quartile pricing by geography (state/province). We found that there is a negligible (5 basis point) difference between Canada and the U.S. for households between

\$250,000 and \$500,000 in assets.

The three most “expensive” geographies have an average RoA of 1.49% on balanced fee-based households and the three least expensive have an average RoA of 1.20%. However, when we analyzed the top and bottom performing advisors in those geographies, it becomes clear that no matter where they are located, advisors can set the price they are confident in.

Chart 11 compares the range of prices charged in the top and bottom priced geographies. There is



significant overlap in price. We observed a similar conclusion when comparing major urban centers to rural areas. Therefore, one can conclude that the main difference between the top performing branches/regions and the bottom performing branches/regions is not based on geography but rather on specific advisor performance. There is no “market clearing” price, and local competition is not influencing client propensity to pay full value.

## Set the Right Price the First Time

We examined advisors who had raised their pricing from 2007 to 2010 and found that only 5% of advisors had raised their price by at least 10 basis points on existing fee-based accounts over that time period. It is very difficult to raise a price once it is set, indicating how important it is to get the price right the first time!

That said, some advisors are raising their aggregate price. We found that 32% of advisors had raised their RoA on fee-based business by more than 10 basis points over the same time period. They did this by raising the price on new fee-based accounts. This is evidenced by the fact that RoAs on older fee-based accounts were, on average, 1.50%. On new fee-based accounts for advisors who had increased their pricing, RoAs were, on average, 1.68%. It is interesting to note that the group that was able to successfully increase pricing was already priced above their peer averages, and opened 25% more accounts than the group of advisors who lowered their fees.

<sup>1</sup>Based on PriceMetrix ValueOne aggregated database.

## Significant Unrealized Revenue Potential

Given the importance advisors have placed on building and growing their fee-based business, it may be surprising to learn that there is significant unrealized fee-based revenue potential. The typical advisor leaves \$20,000 or 9 basis points in potential revenue on the table each year, based on our analysis of revenue lift to the median RoA for similar accounts (similar product categories, asset levels, and asset mix).

The difference between top and bottom quartile advisors in terms of pricing is significant. There are high and low pricers in every geography, every level of production, and every tenure band. The low pricers are not making up production with their transactional business. It is *possible* to charge more than 1.5% on a fee-based account, indeed more than 30% of advisors are able to do it. What is difficult is raising the price once it is set. Some advisors are giving themselves a raise by focusing on improved pricing for new accounts. With 15 new accounts being opened per year on average, this can have a material impact on overall production levels.

This study shows that clients have demonstrated a willingness to pay for value. Firms need to provide advisors with a credible reference for setting price. Advisors need to understand what price is achievable, determine and communicate their price with confidence, and be consistent.

For assistance with assessing your book or firm relative to the market, improving the fee-based pricing of your business, or to provide feedback on this issue of *Insights*, please contact Doug Trott, President and CEO of PriceMetrix, at 416-955-4498 or email Doug at [Doug.Trott@pricemetrix.com](mailto:Doug.Trott@pricemetrix.com).

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The quantitative analysis delivered in this paper is made possible by the aggregated ValueOne database and is the result of a collaborative PriceMetrix effort by Patrick Kennedy, Vice President Research & Development, Chris May, Director, Integrations & Analytics, and Patricia Wong, Senior Client Analyst.

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