

The Anatomy of OUTPERFORMERS



PRICEMETRIX *INSIGHTS* VOLUME 5, DECEMBER 2011

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INTRODUCTION

At PriceMetrix, we are often asked to reveal the secrets of ‘outperforming’ advisors. While all advisors have a recipe for success, there are some actions that thriving advisors undertake more often and/or with greater success than their peers.

This edition of PriceMetrix *Insights* profiles common behaviors of top performing advisors (or ‘Outperformers’).

PriceMetrix directly measures aggregated data representing 3.2 million investors, 500 million transactions, 1 million fee-based accounts, 4 million transactional accounts, and over \$900 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.

In this issue of Insights we reveal the following traits of Outperformers:

- Outperformers focus on growth, and succeed, despite market turbulence;
- Outperformers continually groom their books to attract and keep their target clients, and they manage out accounts that no longer suit their businesses;
- Outperformers are more aggressively making the transition to fee-based business but not at the expense of their transactional business;
- Paradoxically, Outperformers increase their prices across the board on fee and transactional business, and open more accounts than their peers;
- Outperformers maintain pricing discipline, regardless of product or account size;
- Outperformers have deeper relationships with their clients, resulting in larger and more profitable households.

OUTPERFORMERS DEFINED

The group of Outperformers analyzed in this edition of PriceMetrix *Insights* are advisors who have achieved significant growth in the past year. They are not necessarily the advisors with the most revenue or the biggest books, but they have grown their businesses in a variety of ways. To identify our group of Outperformers, we analyzed advisors with similar styles of business (advisors with primarily fee business, primarily managed business, or primarily transactional business), and grouped them by length of service in the industry (3-10 years, 10-20 years, and 20+ years). In each of these distinct groups we segmented advisors into quartiles based on their organic revenue growth¹ and asset growth over the 12 months ending June 2011. It is important to note that we define outperformance across firms, not within them – so one firm may have proportionately fewer or more Outperformers than another. Throughout this paper, we compare advisors in the top quartile (the Outperformers) to advisors in the bottom quartile (the Comparison Group).

ANATOMY OF AN OUTPERFORMER

What does an outperforming advisor look like? Outperformers charged more for their services than the Comparison Group, and grew assets and revenues at a much faster pace. They have larger books and larger households than the Comparison Group (Figure 1). Outperformers have also realized higher growth rates in each of these areas. Overall revenue growth for Outperformers was 34%, compared to -4% for the Comparison Group (see Figure 1). To put it in perspective, the Outperformers looked very similar to the Comparison Group one year ago – they had comparable assets and generated less revenue than the Comparison Group – but they achieved breakthrough growth in both assets and revenue over the subsequent 12 month period. The Comparison Group dropped their price by 11% and struggled to add new business, confirming our findings that demand for investment advice is price inelastic.

FIGURE 1

| | Outperformers | | Comparison Group | |
|---|---------------|--------|------------------|----------|
| Average Advisor Assets 2010 | \$83m | | \$85m | |
| Average Advisor Assets 2011 | \$106m | Up 27% | \$91m | Up 7% |
| Average Advisor Revenue 2010 | \$581,686 | | \$633,088 | |
| Average Advisor Revenue 2011 | \$781,960 | Up 34% | \$605,564 | Down 4% |
| Average Number of Households per Advisor | 195 | Up 3% | 201 | Down 8% |
| Average Household Size | \$540,608 | Up 24% | \$452,580 | Up 16% |
| Average Household Revenue | \$4,002 | Up 31% | \$3,014 | Up 4% |
| Average Advisor RoA | 0.74% | Up 6% | 0.67% | Down 11% |
| Average % of Assets in Fee-based Products | 29% | Up 21% | 21% | Up 12% |

¹The data was filtered to eliminate possible sources of data 'pollution': newly formed advisor teams were removed from the data, as were any advisors who had restructured their codes or acquired significant books of business. To be included in the dataset, advisors had to meet certain thresholds for book size, production, and length of service. Advisors with less than three years of service, or less than \$1 million in assets, or with less than \$100,000 in revenue were excluded from the analysis.

1. Outperformers focus on growth, and succeed, despite recent market turbulence.

In the 12 months ending June 2011, Outperformers opened almost twice as many new accounts as advisors in the Comparison Group (see Figure 2). The average size of the accounts opened by the Outperformers is 37% greater than the average account opened by the Comparison Group. An Outperformer's average new account size 60 days after opening is \$195,000, compared to an average account size of \$142,000 for the Comparison Group. In short, Outperformers added \$18 million in assets from new accounts on average, compared to \$7 million for the Comparison Group.

FIGURE 2

| | Outperformers | Comparison Group |
|---------------------------------------|---------------|------------------|
| Average # of New Accounts per Advisor | 93 | 50 |
| Average Account Size after 60 days | \$194,966 | \$142,418 |

2. Outperformers architect a more attractive client mix.

Outperformers have fewer small households (households with less than \$100,000 in assets) than advisors in the Comparison Group (see Figure 3), and more mid and high net worth households (households with greater than \$250,000 in assets). Outperformers have decreased the proportion of small households in their books at a faster rate than the Comparison Group over the past year, and have added mid and high net worth households more quickly.

FIGURE 3

| Household Assets | Percentage of Households | | | |
|------------------------|--------------------------|----------|------------------|----------|
| | Outperformers | | Comparison Group | |
| Less than \$100,000 | 39% | Down 19% | 42% | Down 16% |
| \$100,000 to \$249,999 | 22% | Up 1% | 22% | Up 3% |
| \$250,000 to \$999,999 | 28% | Up 21% | 26% | Up 18% |
| \$1 million or more | 11% | Up 53% | 10% | Up 43% |

Outperformers recognize that changing their client mix and the productivity of their books is best achieved by ending unproductive relationships in order to make room for more productive clients. On average, the closed accounts belonging to the Outperformers generated \$734 in annual revenue while their newly opened accounts generated \$1,533 (Figure 4). The Comparison Group's closed accounts were as productive as those of the Outperformers; however, their new accounts lagged the productivity of the Outperformers' accounts by over \$400 per year. For every account that Outperformers closed in the twelve month period under review, they opened 1.5 new accounts. This compares to 0.7 new accounts opened by the Comparison Group in the same period. If we calculate the net gain from closing accounts and opening new ones, the Outperformers earned \$1,565 in additional revenue for every account they replaced, while the Comparison Group earned only \$55 (see Figure 4). Assuming the effort involved in opening and closing accounts is similar for both Outperformers and the Comparison Group, the Outperformers are getting paid almost 29 times more for that activity.

FIGURE 4

| | Outperformers | Comparison Group |
|---|---------------|------------------|
| Average Closed Account Assets | \$58,901 | \$54,565 |
| Average 12 Month Revenue from Closed Accounts | \$734 | \$717 |
| Average 12 Month Revenue from New Accounts (annualized) | \$1,533 | \$1,103 |
| # of New Accounts Opened for each Account Closed | 1.5 | 0.7 |
| Net Revenue Gain for Each Account Opened ² | \$1,565 | \$55 |

3. Outperformers are transitioning more aggressively into fee-based and discretionary business models.

Outperformers have moved more of their client assets into fee-based products, and recognize a greater percentage of recurring revenue as a result. Outperformers have 29% of their client assets in fee-based products, compared to 21% for the Comparison Group (Figure 5). This percentage has increased 21% over the past year for the Outperformers, compared to an increase of 12% for the Comparison Group, so this gap is widening. Additionally, Outperformers have increased their percentage of assets in Discretionary Products by over 40% in the past year, compared with growth of 24% for the Comparison Group.

² Net Gain is calculated by multiplying Average New Account Revenue by the number of New Accounts Opened for each Closed Account and subtracting Average Closed Account Revenue (ex: $\$1,533 \times 1.5 = \$2,299 - \$734 = \$1,565$)

Outperformers are opening new fee-based accounts at a faster rate than the Comparison Group; in the year ending June 2011, Outperformers opened 23 new fee-based accounts per advisor, compared to only 9 accounts per advisor opened by the Comparison Group.

In terms of revenue, Outperformers derive 49% of their revenue from recurring sources, compared with 44% for the Comparison Group (see Figure 5). 12% of the revenue earned by Outperformers comes from Discretionary Products. Outperformers generate less revenue from mutual fund trailers than the Comparison Group: currently trailer revenue accounts for only 11% of overall revenue for the Outperformers, and that percentage has decreased over the past year by 5%.

| FIGURE 5 | | | | |
|---|---------------|---------|------------------|--------|
| | Outperformers | | Comparison Group | |
| % of Assets in Fee & Managed Products | 29% | Up 21% | 21% | Up 12% |
| % of Assets in Discretionary Products | 8% | Up 40% | 4% | Up 24% |
| Recurring Revenue (Fee-based and Trailer) | 49% | Up 9% | 44% | Up 11% |
| % of Revenue from Trailers | 11% | Down 5% | 14% | Up 11% |

4. Outperformers maintain pricing on transactional accounts.

Even though Outperformers are focused on growing their fee-based business, they have not lost sight of the importance of managing the productivity of all accounts, fee or transactional.

Although both groups are actively growing assets in fee-based programs, the majority of clients remain 'transactional only' – that is to say, they only have transactional accounts in their household. 73% of Outperformers' households are transactional only, compared to 85% for the Comparison Group.

16% of Outperformers' households have both fee and transactional accounts, compared to 9% for the Comparison Group. Helping clients decide what type of account meets their needs is a critical part of the advisor-client relationship. While having both fee and transactional accounts isn't the right solution for every client, Outperformers have more clients who are benefiting from multiple account types. Our analysis shows that households with both fee-based and transactional accounts generate more revenue than households with only fee or only transactional accounts (see Figure 6 on the following page).

It is not uncommon for an advisor focused on ‘transitioning to fee’ to price their remaining transactional accounts as a ‘loss leader’. Outperformers lead the Comparison Group when it comes to the return they realize on their transactional accounts. Outperformers realize a return on transactional assets of 0.56%, compared to 0.51% for the Comparison Group (see Figure 7). For the average Outperformer, this translates into as much as \$37,750 in additional annual revenue.

FIGURE 6

| | Outperformers | | Comparison Group | |
|--|---------------|--|------------------|--|
| % of Households with only Transactional Accounts | 73% | Average Annual Revenue per Household \$2,200 | 85% | Average Annual Revenue per Household \$1,810 |
| % of Households with only Fee-Based Accounts | 11% | Average Annual Revenue per Household \$4,796 | 6% | Average Annual Revenue per Household \$5,050 |
| % of Households with both Fee-Based and Transactional Accounts | 16% | Average Annual Revenue per Household \$9,408 | 9% | Average Annual Revenue per Household \$9,299 |

5. Outperformers defend and raise their price – for both transactional and fee accounts.

Outperformers have demonstrated an ability to maintain their pricing levels over the past year, which has clearly been a turbulent time for the retail investor. The Comparison Group, by contrast, has allowed their pricing to erode significantly during this period (see Figure 7).

FIGURE 7

| | Outperformers | | Comparison Group | |
|-----------------------------------|---------------|-----------|------------------|----------|
| RoA on Transactional Accounts | 0.56% | Up 4% | 0.51% | Down 14% |
| RoA on Non-Transactional Accounts | 1.04% | No change | 1.01% | Down 2% |

Any successful advisor should have a compelling value proposition and a commensurate pricing strategy. In our last edition of Insights, “[Equity Commission Pricing Myths and Realities](#)”, we showed that having a pricing strategy appears to be a key factor in determining an advisor’s success: advisors who price rationally and demonstrate consistency in their pricing outperform their peers. It should come as little surprise, then, that we see evidence of this behavior in Outperformers.

6. Outperformers do not ‘give it away’ for large clients and large trades.

For Outperformers, the average millionaire household³ has \$5.1 million invested, and produces an RoA of 0.91%. The average Comparison Group millionaire invests \$5.0 million and produces an RoA of 0.77%. Despite the similarity in average household size, Outperformers get paid 20% more than Comparison Group advisors for their high net worth business (see Figure 8).

FIGURE 8

| | Outperformers | | Comparison Group | |
|--|---------------|-------|------------------|---------|
| Average Assets in Millionaire Households | \$5.1 million | Up 6% | \$5.0 million | Down 2% |
| Average RoA for Millionaire Households | 0.91% | | 0.77% | |

³Millionaire households are defined as households with between \$1 Million - \$10 Million in assets.

Outperformers maintain more discipline over equity trade pricing, regardless of trade size. As expected, the price (commission) of an equity trade, as a percentage of the principal traded, decreases as the principal size of the trade increases. However, for Outperformers this price decrease is less pronounced than for the Comparison Group. On trades with principal between \$25,000 and \$50,000 executed for households with \$250,000 or more in assets, Outperformers charge an average of \$23 more than the Comparison Group. This price gap gets more pronounced as trade size increases (see Figure 9). On trades with a principal over \$50,000, Outperformers charge an average of \$167 more per trade than the Comparison Group.



Outperformers get paid 20% more than Comparison Group advisors for their high net worth business

FIGURE 9 – Percentage discount on equity trades executed for households with \$250,000 or more in assets

| Trade Size (Principal) | Outperformers | Comparison Group | Per Trade Benefit for Outperformers |
|------------------------|---------------|------------------|-------------------------------------|
| Less than \$10,000 | 32% | 30% | -\$3 |
| \$10,000 - \$24,999 | 34% | 35% | \$4 |
| \$25,000 - \$49,999 | 41% | 45% | \$23 |
| \$50,000 or more | 48% | 59% | \$167 |

7. Outperformers improved their production across all client segments.

Outperformers proactively increased their productivity of existing client accounts, both big and small. For households of all sizes, Outperformers generated more revenue than the Comparison Group and have increased that revenue over the past year; the Comparison Group saw marked decreases in each client segment (see Figure 10).

FIGURE 10

| Household Assets | Outperformers' RoA | | Comparison Group RoA | |
|------------------------|--------------------|--------|----------------------|----------|
| | RoA | Change | RoA | Change |
| Less than \$50,000 | 1.63% | Up 12% | 1.32% | Down 10% |
| \$50,000 to \$99,999 | 0.95% | Up 3% | 0.78% | Down 11% |
| \$100,000 to \$249,999 | 1.03% | Up 8% | 0.85% | Down 6% |
| \$250,000 to \$499,999 | 1.02% | Up 8% | 0.83% | Down 6% |
| \$500,000 to \$999,999 | 0.95% | Up 12% | 0.79% | Down 7% |
| \$1,000,000 or more | 0.61% | Up 11% | 0.50% | Down 11% |

Outperformers have fewer clients who generate small amounts of revenue: 24% of households belonging to Outperformers generate \$100 or less in annual revenue (Figure 11). While this is still a surprisingly high number, it has declined by 13% over the past year. It is also much lower than the 31% of households belonging to the Comparison Group that generate \$100 or less annually. Outperformers also have a greater percentage of households with more than one account type (i.e., registered, non-registered, taxable, and non-taxable) – a characteristic we term “Cross-Sold Households”. 46% of the households belonging to Outperformers are Cross-Sold; only 42% of households belonging to advisors in the Comparison Group are Cross-Sold.

FIGURE 11

| | Outperformers | | Comparison Group | |
|--|---------------|----------|------------------|---------|
| % of Households with less than \$100 in Annual Revenue | 24% | Down 13% | 31% | Down 7% |
| % of Cross-Sold Households | 46% | Up 5% | 42% | Up 6% |



Outperformers increased the productivity of all clients, both big and small

CONCLUSION

Our analysis of the anatomy of Outperformers reveals that their achievements are not accidental; they are the result of a careful and considered approach to managing their business and their clients.

As an advisor, what can you do to outperform your peers?

Copy the habits of proven Outperformers and set targets:

- Ensure at least 75% of your clients pay you at least \$100 per year;
- Cross sell at least 50% of your clients;
- Exit 5 low revenue, low asset clients a month;
- Add 8 accounts a month with average assets of a \$150,000 dollars or more;
- Establish the price for your value, and defend it;
- Charge million dollar households 91 basis points or more;
- Increase the amount of fee-based and managed assets to 25% or more of your book, and embrace the fact that clients may choose to have both fee-based and transactional accounts.

As an Executive at a broker-dealer, what should you do to grow the number of your Outperformers?

The typical brokerage firm reward structure recognizes those who **produce** the most – not those who **grow** the most. While some of our Outperformers may have ‘outperformed’ themselves into a new compensation grid or a new recognition level, it is clear that firms should be identifying and rewarding ALL of their Outperformers who really do represent their engine of growth.

- Find out who your Outperformers are. If you are a PriceMetrix client you already have the tools to identify them. Ask us how!
- Recognize Outperformers with compensation or other rewards, and identify them to their peers;
- Share the practices of Outperformers with their peers;
- Find out if you have ‘pockets of Outperformance’ at the branch or region levels, and understand the practices of those managers;
- Identify behaviors, such as sympathy pricing, that may be keeping some of your advisors from becoming Outperformers, and address them proactively;
- Don’t just recruit ‘big producers’ – actively recruit Outperformers. Ask the right questions to ensure you maximize your recruiting ROI.

We hope that this edition of Insights has provided you with insights on what Outperformers do better, and differently, than other advisors.

If you would like to learn more about what Outperformers at your firm are doing, please contact Patrick Kennedy, Vice President, Product, Client Management & Analytics at +1 (416) 955-1728 and email him at patrick.kennedy@pricematrix.com.

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, Client Management and Analytics, Madeleine Cruickshank, Director, Analytics and Mathew Duffy, Client Analyst.

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