



## PRACTICE MANAGEMENT: Discounts Hurt Business

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--Advisers who cut commissions during the recession have trouble raising them

--The average adviser upped trading discount to 43% from 37% during the recession of 2008 and 2009

--Advisers who raised commissions lost fewer clients

By Ruthie Ackerman

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Apple, known to many as the best retailer in the world, never discounts its wares. Advisors shouldn't either.

A study released on Monday by **PriceMetrix**, a Toronto-based wealth-management research firm, found that most financial advisers who slashed their commissions during the recession are still charging less than those who kept their prices consistent during that period.

"What you don't want to do is get into a commodity trap," said Richard Belknap, owner of Belknap Wealth Management, part of Scotia McLeod. "If the only negotiating point you have on your services is price then you're in a commodity business."

Robert Byler, portfolio manager and director of wealth management at Richardson GMP Limited, stood by Apple's wisdom at his firm, where he manages upwards of \$100 million.

"I know how damaging discounting would be to my business," Byler explained. "You have to deliver a lot of value and service as an adviser."

The study, which looked at seven million transactional equity commissions over a three-year period ending in June 2011 found that, on average, advisers deepened their discount from 37% in November 2008 to 43% in July 2009.

Of the advisers included in the study, only 13% discounted little or nothing during the three years, while over 30% did deep discounting, taking 50% to 70% off their full price. About 20% were extreme discounters, who cut by more than half.

Fees have gone up since January 2009, with the average ticket size jumping from \$224 to \$231 between January 2009 and June 2011.

Consistency is key. According to the study, advisers who priced trades consistently raked in a superior price-to-principal ratio of 1.13%, compared to 1.04% for inconsistent pricers. Consistent pricers also have a higher average return on assets--0.76% compared to 0.71%.

Discounting makes it harder to give clients the extra attention they need during uncertain and volatile economic times, said John Waldron, President and CEO of Waldron Wealth Management, which has assets under advisement of \$2.5 billion. "By cutting the firm's resources and going into hibernation mode in times of acute volatility you will not be able to help your client. Instead, we upped our resources, worked longer hours, and hired

more to better serve and connect with clients, which is actually why they did better during those times" than they had done before.

In fact, advisors who raised--rather than cut--their commissions lost fewer clients than those who kept their prices consistent. According to the study, those who raised their prices by 25% or more lost 6.1% of their clients, compared to 9.4% for those who kept their prices consistent.

Byler believes those who offer "sympathy" or discount pricing have weaker relationships with clients and are prone to blaming themselves when the market takes a nosedive. When clients ask Byler for discounts, he reminds them that he charges by the volume of assets. "If you bring in \$2 million you get my \$2 million rate. If you bring in \$1 million you get the \$1 million rate. Smaller accounts typically pay the most as a percentage," he said. "That usually ends the conversation right there." Once an adviser starts to discount, the client will come to expect it, he argued.

It also helps to justify the many ways advisers help clients: developing a strategy, hiring portfolio managers and monitoring their performance.

Clients with \$100,000 to \$200,000 in assets are most likely to request discounts, Belknap said: "You can get trapped into discounting significantly with smaller clients."

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Doug Trott: if you hold the line and don't lower your prices when the market goes down you can still keep your clients.

## Slashing fees to clients in tough times won't help your business, study says

PriceMetrix survey covering advisors with \$900 billion AUM shows clients are mostly attuned to trustworthiness, not basis points

10h 2min ago by **Lisa Shidler** tags: [PriceMetrix](#) | [Doug Trott](#) | [FA Insight](#) | [Dan Inveen](#)

The old saying that nice guys finish last is proving true for those financial advisors who slashed fees in the wake of the economic downturn – they have seen their businesses suffer compared to advisors who kept their fees the same, according to data collected by Toronto-based PriceMetrix.

“PriceMetrix aggregates and “cleans” data from our clients. On a monthly basis we “household” the data and run it through a proprietary, patented reporting engine to produce predictive business intelligence for investment advisors, branches, regions and senior management; each of whom is set up with access to a personalized internet portal.”

“Equity Commission Pricing Myths and Realities,” a white paper released today, reports that advisors who stuck to their fee schedules after the market started to go south in 2008 did better than those who cut fees. Not only did those advisors who cut their fees lose money in the short-term, they also had lower average returns, according to the data.

### **Downward ratcheting**

Additionally, those advisors who slashed their fees have not been able to reset their prices as quickly.

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“Advisors may be surprised, but if you hold the line and don’t lower your prices when the market goes down you can still keep your clients,” says Doug Trott, president and CEO of PriceMetrix.

PriceMetrix measures aggregated data representing 3.2 million investors and 15,000 financial advisors whose assets total more than \$900 billion. The study evaluated the fees advisors charged for more than 7 million retail equity trades from June 2008 to June 2011.



Dan Iveen: advisors who are able to hold steady with prices are good at demonstrating and articulating their own value.

The study included RIAs, wirehouse advisors and regional advisors.

## **It pays to hang tough**

While all advisors, on average, saw a drop in the number of households on their books from 2008 to 2011, those who held their prices steady had better client retention than those who slashed prices, according to PriceMetrix. Advisors who held their prices steady saw their average number of households decrease by 6.1% compared to a decrease of 9.4% for those who did not raise their prices.

Advisors who kept their prices steady also increased the productivity of their businesses over the three-year period: In the study, average production for the group that raised prices grew by 12% compared to an increase of 9% for those who didn’t raise prices.

That group also saw a greater increase in the number of households in their books that generated \$2,500 or more in annual revenue. Advisors who raised prices grew their number of core households by 10% in the three-year period compared to 6% for the other advisors.

## Discounts across the board

Of those 7 million trades, the analysis shows advisor pricing is inconsistent and that offering sales on the cost of trades is overwhelmingly commonplace in the industry. In fact, 87% of advisors discounted their prices with just 13% of them keeping their rates at full price or raising them.

On average, advisors still discount so heavily that they're leaving an average of \$132 per trade on the table, PriceMetrix says. The average discount per trade during the period was 35% off the scheduled price.

## Catching up

Advisors who slashed their costs dramatically over the last three years still haven't caught up to the prices of advisors who held steady with the prices, Trott says.

That's no surprise, says Dan Inveen, managing principal of [FA Insight](#).

"It's certainly easier to cut prices with clients than to raise them," he says.

Iveen also points out that advisors can certainly argue that they worked harder for clients in recent years and shouldn't necessarily be lowering prices simply because the market is volatile.

"I think advisors who are able to hold steady with prices are good at demonstrating and articulating their own value," Inveen says.

## Service trumps fees

Even though Trott acknowledges that everyone likes to get a deal, clients are more interested in a trustworthy advisor than cheap fees as long as they feel they are getting value for their money.

"The demand in finances doesn't respond to price," Trott says. "Having a lower price doesn't guarantee you more business. It's not really about the price. It's about the quality of service."

He points out that most clients leave because of an advisor's poor communication or because an advisor didn't explain performance.

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