

A challenging year becomes a catalyst for growth

Results from the 2021
RIA Benchmarking Study
from Charles Schwab

About Schwab Guiding Principle Series™

The Guiding Principle Series (GPS) is based on the Guiding Principles for Advisory Firm Success, a foundational framework that helps advisors address the complexities of growing their firms and creating enduring enterprises. Grounded in the best practices of leading independent advisory firms, the GPS delivers relevant and timely information to help advisors solve their unique challenges and strategically manage and grow their firms. The GPS includes industry-leading studies, resources, and tools from Schwab that are designed to help advisors explore innovative concepts and obtain new insights as they set the strategies that propel their firms to new levels of growth.

For more than 20 years, Schwab Advisor Services™, the leading custodian of over 8,000 registered investment advisory firms, and Schwab Business Consulting and Education have been working hand in hand with advisors, leveraging our deep expertise in core business issues to help firms achieve their goals and gain competitive advantage. Schwab's collaborative approach leverages the guiding principles to help advisors benefit from proven practices of the industry's most successful RIA firms.

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GUIDING PRINCIPLES FOR ADVISORY FIRM SUCCESS



Effective planning and execution is a leading indicator of success



Value is defined through your clients' eyes



Operational excellence creates greater capacity for clients



Your reputation is your brand



People are your most important asset

Introduction

As COVID-19 upended life worldwide in 2020, Registered Investment Advisors (RIAs) grappled with its impact on their businesses. Firms had to assess how to serve existing clients, reach out to prospects, and manage their workforces. Yet despite the challenges of the global pandemic, firms adapted and grew. The circumstances generated an environment of experimentation and encouraged the adoption of digital practices. Many advisors now say the innovations not only helped their firms weather the pandemic, but also made them stronger.



Indeed, 2020 proved to be a year of solid gains for RIA firms, as demonstrated in the results of the 2021 RIA Benchmarking Study from Charles Schwab. Firms with under \$250 million in assets under management (AUM) saw 16.6% growth in assets in 2020, and firms with more than \$250 million realized 13.7% year-over-year AUM growth at the median.ⁱ These rates were higher than the 5-year compound annual growth rates over the period 2016 through 2020: 13.4% and 12.3%, respectively.ⁱⁱ

Organic growthⁱⁱⁱ played a large part in this increase. For smaller firms, assets from new and existing clients contributed 7.0% to growth; for larger firms, the figure was 4.7%. Investment performance accounts for the balance of AUM growth. Revenue rose in 2020 by 9.4% for smaller firms and 6.5% for larger firms.

Despite having to interact differently, advisors saw consistent client growth as well. For smaller firms, client numbers were up 5.6% in 2020, compared with 5.8% in 2019, with the median firm adding 10 new clients. Larger firms brought on 21 new clients at the median, a 2020 client increase of 4.5%, up from 4.3% in 2019.

Mergers and acquisitions (M&A) also drove growth in 2020. Deal volumes were back to record levels in the second half of the year, as advisors adjusted to managing these transactions virtually.^{iv} In 2020, 4.4% of all firms that participated in the study acquired new clients via M&A, representing an increase of over \$200 million in AUM at the median firm. Interest remains strong, as 24% of firms indicated they were actively seeking to buy an RIA in the next year.

How did firms achieve these business results amid the turmoil? By adapting to challenges, innovating, and staying laser-focused on the client experience.

Creative solutions

Keeping an eye on the fundamentals, firms found new ways to operate and serve clients that maintained the integrity of their businesses.



RIA firms have always been resilient.

Although 2020 put that resilience to the test, it was a catalyst for innovation and experimentation, pushing firms to adapt their core business models and reimagine how they engage with clients, prospects, and staff. RIAs emerged with incredible growth and are well positioned to build on this momentum.”

Lisa Salvi

Managing Director, Business Consulting and Education
Charles Schwab Advisor Services

Strengthening client relationships virtually. According to the 2021 RIA Benchmarking Study, median client retention remained very high, at 97% in 2020. Moreover, the increase in net assets from existing clients reached its highest point in five years: \$10 million for larger firms and \$2.5 million for smaller firms. In the first quarter of 2021, advisors engaged with 90% of their clients completely virtually, and anticipate this will decrease to 50% of clients after COVID-related restrictions are lifted.

Approaching business development differently. Firms maintained their level of new client assets in 2020 compared with 2019: \$23 million for larger firms and \$5.1 million for smaller firms. Pivoting to virtual business development enabled this: About 80% of all firms converted some prospects entirely virtually last year. In the future, advisors anticipate 30% of prospects will engage completely virtually during the sales process.

Leveraging opportunities for productivity gains. Meeting virtually and adopting digital processes may have boosted productivity. For firms with \$250 million or more in AUM, the median number of clients per professional increased to 57 in 2020, from 53 in 2019. Firms saw a decrease, to 16 hours, in annual hours spent per client on operations.

Supporting staff. Firms continued investing in their people, spending \$1,632 per professional for training, education, dues, and licensing.^v Additionally, 71% of firms hired new staff in 2020 to help their teams manage growth. Firms also helped their teams address COVID

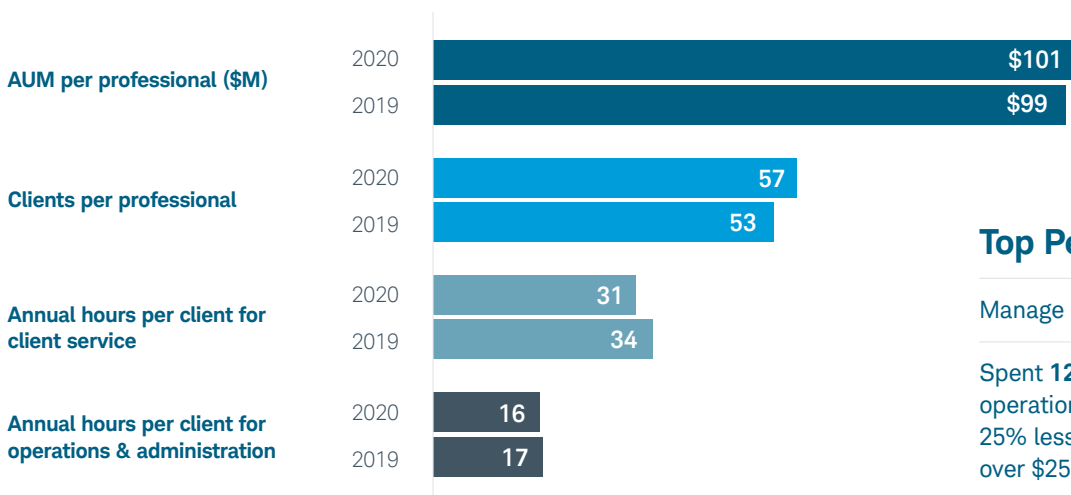
Highlights from the 2021 RIA Benchmarking Study:

- 1,340 firms participated, representing over \$1.5 trillion in AUM.
- Advisors adopted new ways to conduct business, resulting in healthy growth for 2020: AUM up 14.5%, revenue up 7.5%, and the number of clients up 4.7%, for all firms at the median.
- Top Performing Firms saw twice the growth in assets from new clients compared with all other firms.
- RIAs had success with digital business development, with over 70% of firms generating leads from their websites, virtual prospect events, and online advertising.^{vi}

concerns. Only about a third of staff were spending more than four days a week in the office as 2021 began.

Firms hit their stride in connecting virtually with clients and prospects by the second half of 2020 and are emerging stronger. A certain group of RIAs, Top Performing Firms,^{vii} are already realizing the benefits of leveraging digital interactions.

Advisors saw productivity gains over a one-year period



Top Performing Firms

Manage 59 clients per professional

Spent **12 hours** per client for operations and administration, 25% less time than firms with over \$250 million in AUM

Median results from the 2020 and 2021 RIA Benchmarking Study from Charles Schwab. Results for all firms with \$250 million or more in AUM.

Top Performing Firms: Driving growth through best practices

The Firm Performance Index was created to help advisors gain insights into their own firm's performance. The index uses 15 key metrics to rank all firms in the study—encompassing all sizes and lifecycle stages. These metrics take into account fundamental aspects of running a business: growth in clients, assets, and revenue; client and staff attrition; operating margin; time spent on client service and operations; and the use of standardized workflows. The index also factors in documented strategic plans, succession plans, ideal client personas, and client value propositions. Top Performing Firms excel in these areas, ranking in the top 20% of the index overall.

The metrics included in the Firm Performance Index align with the Guiding Principles for Advisory Firm Success, Schwab's foundational framework that helps RIAs

navigate the complexities of growing their businesses. This approach helps to paint a complete picture of how firms are performing, operating, and building future value, and enables advisors to identify strengths and potential opportunities for their firms.

The strong results of Top Performing Firms may be attributed to their keen focus on activities that support new client growth, such as having an ideal client persona (ICP) and client value proposition (CVP), and using a broad set of marketing tactics. Top Performing Firms saw twice as much growth in new client assets in 2020 and twice as much annualized revenue growth over the past five years than all other firms. Insights into how Top Performing Firms excel across a full spectrum of key business functions can help firms pinpoint their own areas of opportunity.

Top Performing Firms excel across key metrics

Metric	Top Performing Firms	All other firms	Multiple
5-year net asset flows compound annual growth rate	13.9%	4.7%	3.0x
5-year revenue compound annual growth rate	14.7%	7.0%	2.1x
5-year client compound annual growth rate	10.3%	4.2%	2.5x
Growth in assets from new clients in 2020	7.4%	3.6%	2.0x
Number of new clients in 2020	22	14	1.5x
Firms with a documented ideal client persona	68%	52%	1.3x

Note: Median results unless otherwise noted. "Top Performing Firms" are those ranked in the top 20th percentile of the Firm Performance Index. "All other firms" are those ranked below the 80th percentile of the index.

Guiding Principle: Value is defined through your clients' eyes



Firms thrive when focusing on the client experience from their clients' point of view. When every person, process, service offering, and system maintains an extreme focus on your ideal client, you are able to differentiate your firm in an increasingly competitive landscape.

New client growth driven by innovation

Despite the challenges of 2020, 68% of all advisors met or exceeded their client growth goals. Top Performing Firms did even better, with 81% exceeding or meeting their new client goals.^{viii} The environment spurred accelerated innovation as staff, prospects, and clients became more comfortable with virtual interactions, providing momentum for future business development efforts. Advisors now have both digital and in-person options to serve prospects and clients.

Broadly, three steps can help firms foster new client growth in any environment, whether virtual or face-to-face:

- Creating a marketing plan
- Identifying tactics to engage prospects and generate leads
- Tracking results and refining to make the most of the firm's marketing dollars

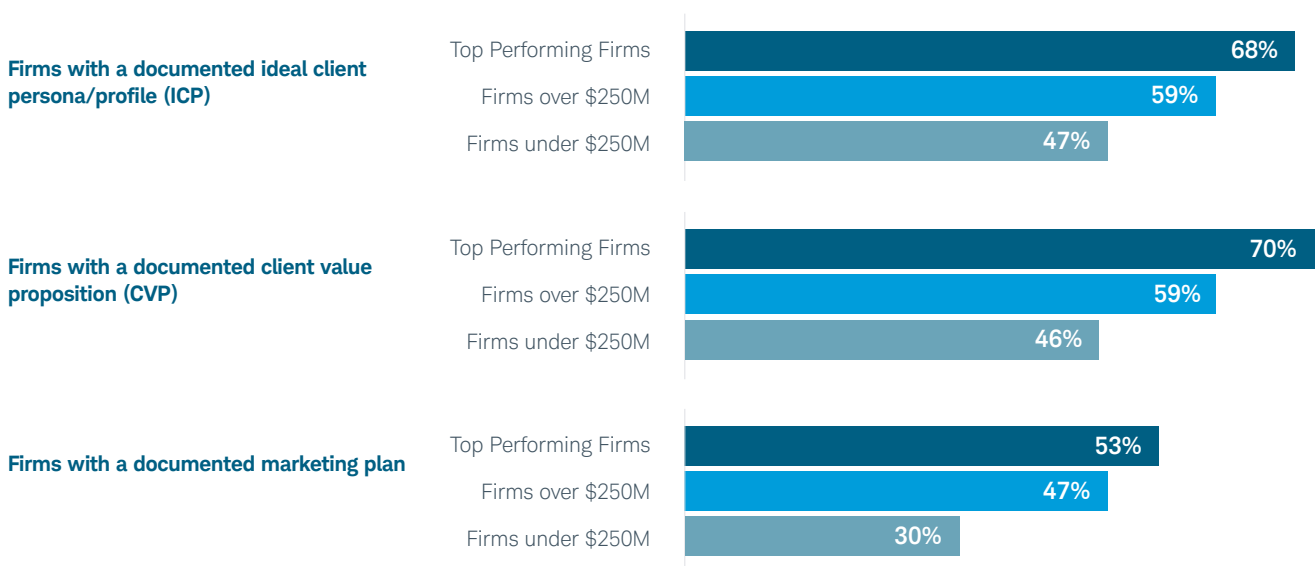
A plan to align the entire firm

Marketing gives clients, business partners, and staff a better understanding of the value a firm delivers. Because it includes any activity done to communicate value and differentiate a firm, it can encompass a wide range of tactics that support the firm's strategy while connecting with prospects and clients. Documentation makes the plan more concrete.

To support new client growth, just over half of all firms documented their ideal client persona (ICP), client value proposition (CVP), and new client goals. Top Performing Firms stand out here, with about two-thirds leveraging these strategic tools. Moreover, they spend 45% more on marketing and business development than all other firms, or 2.1% of revenue, to execute their plans.^{ix}

Understanding the ideal client, what they value in an advisor, and how to reach them helps firms maximize their marketing investment. The Benchmarking Study shows that RIAs with a documented ICP, CVP, and

Documentation makes plans more concrete



marketing plan attracted 50% more new clients and 62% more new client assets than firms that didn't put these in writing.

Many firms have opportunities to better define their approach to growth. For example, only 42% of all firms have a documented marketing plan, and only 35% and 25% have written referral plans and goals for existing clients and business partners, respectively. Since referrals account for most new clients, having a firm-wide plan that outlines behaviors (e.g., targeting a certain number of conversations per week), assigns responsibilities, and identifies referral goals could be impactful.

But simply relying on referrals isn't enough. Marketing can amplify referrals, elevating a firm's reputation among clients and business partners and a firm's brand awareness in the marketplace. It can help make sure clients and business partners have the information they need to refer ideal clients to the firm.

Effective tactics

As advisors looked for new ways to connect with prospects, digital strategies grew in importance. In the 2021 Benchmarking Study, 75% of firms reported that virtual events with prospects generated leads, although only 5% of firms used this tactic. Social media is increasingly useful, with 52% of firms saying they used

this tactic for prospecting, and more than half saying it resulted in leads. In fact, for RIA firms today, a social media presence has become increasingly important to heighten visibility, share meaningful content, and create a connection with existing clients and prospects. Even if a firm's ideal client is not on social media, firms may reach others in that person's sphere.

The chart below shows the most effective approaches in generating leads. The top methods that firms tried for the first time last year were virtual events and webcasts. Top Performing Firms were more likely to leverage all of the tactics listed, and more reported generating leads. When considering what tactics to pursue, it's helpful to focus on those that resonate with the firm's ideal client.

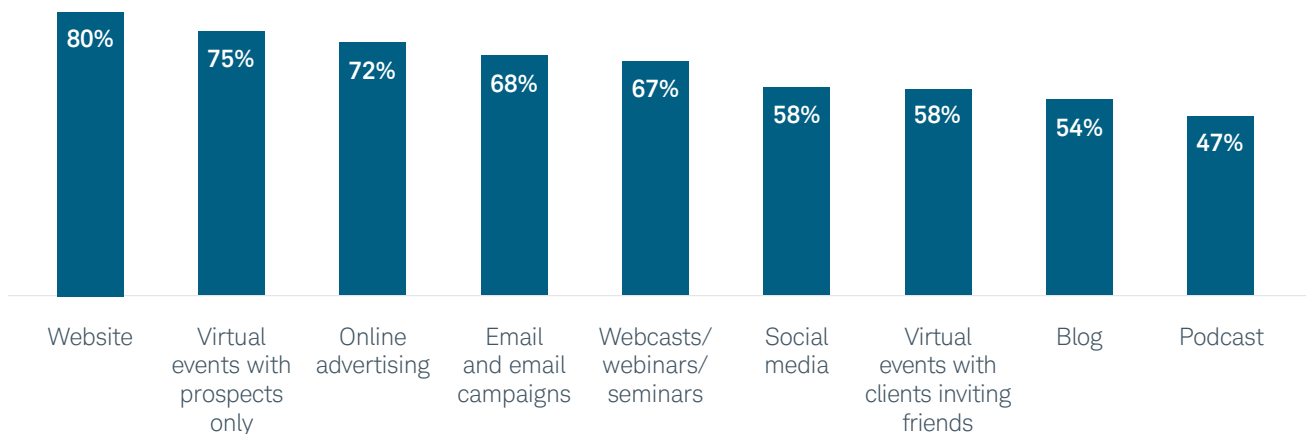
About three-quarters of firms reported using their website for prospecting. During the pandemic, a firm's website essentially served as its "new front door." Unable to visit in person, many prospects went online to "meet" the team, understand the firm's philosophy, and validate what they might have heard about the firm.

Advisors face two key questions when evaluating their websites. First, is it engaging? And second, is it attracting prospects?

An effective website delivers meaningful content to a firm's ideal client, and 44% of firms reported that they design content for their ICP. Thirty-eight percent integrate a lead capture form, which can be especially

Firms successfully leveraged digital tactics

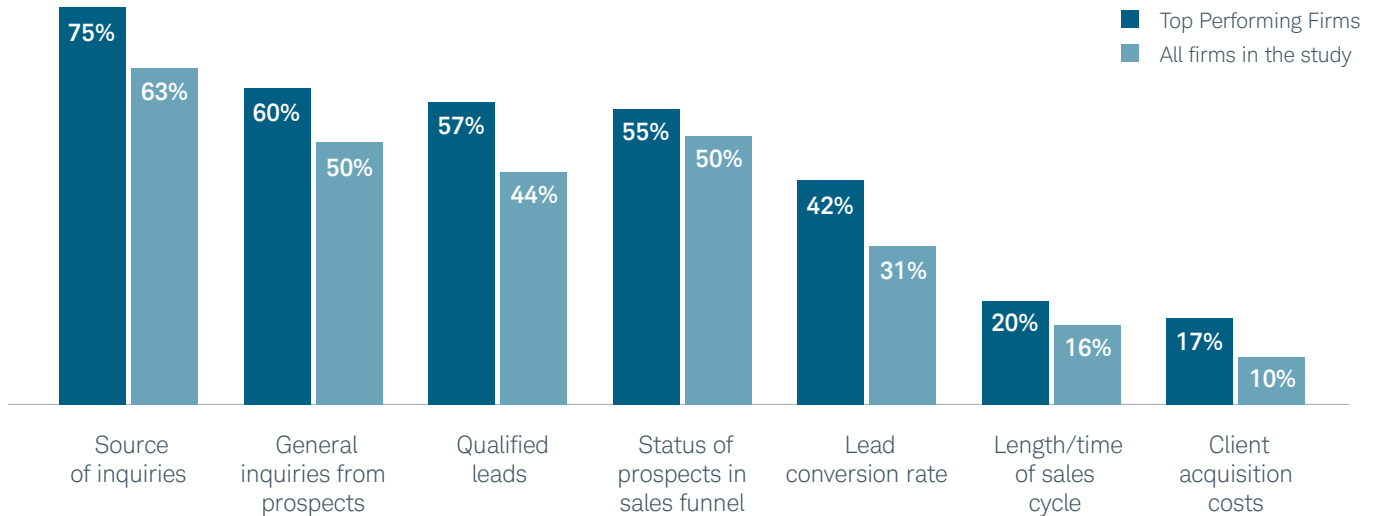
Percent of firms generating leads



Based on firms that track leads and indicated generating one or more leads from tactic.

Top Performing Firms more often track prospecting metrics

Firms that track new client growth metrics



effective if a white paper or other content is made available. The numbers are higher for Top Performing Firms, about half of which design content for their ICP and offer a lead capture form.

Ensuring that prospective clients can find the website is equally important. Here, firms have room to grow. Less than half of all firms, 44%, leveraged search engine optimization (SEO) to support lead generation, while 52% of Top Performing Firms took advantage of SEO.

The importance of tracking

Perhaps the most critical step in prospecting is monitoring results to ensure effective use of marketing dollars. Knowing where leads come from is only part of the process—firms also need to know where each prospect is in the sales cycle. Half of all firms track the status of prospects in the sales funnel, with many using their CRM to define and track the steps advisors should take—from first meeting to closing—and provide feedback about business development efforts.

Tracking is also a critical step to understanding a firm's lead conversion rate (the number of new clients divided by the number of qualified leads). Understanding the source of inquiries (63% of all firms do this) and the number of qualified leads (44% of firms) helps identify

where prospects meeting the firm's ideal client attributes come from. More Top Performing Firms track their progress toward new client growth.

Since only half of firms with \$250 million or more in AUM, and 31% with under \$250 million, track qualified leads, this is an opportunity for advisors. For those that track, the median lead conversion rate is 55%. Top Performing Firms saw a higher lead conversion rate, closing 60% of leads at the median.

Positioned for the future

This past year created an atmosphere of innovation that helped advisors reimagine how they engage with clients, prospects, and staff. Some advisors saw opportunities to strengthen relationships with their clients by reaching out just to see how clients were doing, reinforcing their CVP by demonstrating concern.

Reliance on digital interaction and technology was a challenge, but it is one from which many firms expect to emerge stronger. Many leaders are now focused on fostering a strong culture as they move toward a new era featuring the best of both worlds—both virtual and in-person interaction. These experiences will help advisors thrive as the RIA industry continues to evolve.

Building a website with clients at its heart

It has been almost 10 years since Helen Stephens, founder and chief planner of Aspen Wealth Management, began applying search engine optimization (SEO) to her firm's website. That was even before people were talking about SEO. So when the COVID-19 pandemic abruptly curtailed person-to-person contact, the firm was in a good position. New clients looking for a financial planner easily found Aspen online, and the firm kept growing.

Once prospects find the website, they discover abundant reasons to stick around—not only information about the firm but also blogs, articles, and videos about investing and financial planning. These resources are created with the firm's ideal client in mind, so that when the website visitor fills out a lead form, requests a free consultation, or emails the firm, Aspen can be sure the lead is well qualified.

Although Aspen has an active referral culture among clients and centers of influence, the website has long been its biggest draw. "We get most of our clients—highly qualified clients—through Google," Stephens says. The firm currently has about 200 client families.

In addition to its website, Aspen turned to developing more online programming during the lockdown to bring people together. They hosted online webinars monthly on such topics as Medicare planning, Social Security planning, and health and wellness. "I think that wealth and wellness are intertwined," Stephens says, "but how do you exercise when you can't go anywhere? Where do you walk? It was

Case study at a glance

Firm name: Aspen Wealth Management

Firm size: \$230 million in AUM

Employees: 5

Firm founded: 2011

Highlights

- Search engine optimization (SEO) has long been a focus of the firm
- Website content created with ideal client in mind
- Tracking their sales funnel helps achieve growth goals
- Every employee is involved in planning the firm's future



Helen Stephens
Founder and
Chief Planner

“If you don't measure it, why do it? Tracking allows us to spend time on those areas that have the greatest impact.”

Helen Stephens
Founder and Chief Planner

ASPEN WEALTH MANAGEMENT (CONTINUED)

programming that was fun and interesting, and our clients just ate it up.”

Aspen had already updated their technology to allow for remote work, leveraging a phone system that has virtual meeting capabilities. “We have clients as far away as Hawaii,” Stephens says, “so we had already started implementing virtual technology, and now it’s just supersized.” If a client needed help with the technology, the firm provided extra service. As Stephens says, “We met them where they were.”

Ingredients for client growth

To monitor growth patterns, Aspen tracks their sales funnel closely, including how many people make an inquiry versus how many ask for a planning meeting and how many move to an AUM relationship. “If we want to dial up growth this way, then we know we have to get this many people to engage with our firm,” Stephens says. “You can really be the master of your domain if you know the recipe.”

Because Aspen considers its internal culture vital to client service and growth, the firm held an annual staff planning meeting as usual in 2020, bringing employees together to discuss what their new clients will look like, how many there will be, and where they will come from. Every employee contributes to the vision of the firm’s future “because we all need to be moving in the same direction,” Stephens says. Stephens also

“You can really be the master of your domain if you know the recipe.”

held her customary quarterly meetings with each employee (she calls them co-workers) to find out how they think the firm is progressing and how it is supporting them as they advance toward personal goals. “To have a great team and a great firm, you need people who are constantly learning,” Stephens says.

Last year, the firm revised its website to be even more client-centric. “We worked hard to make the client the hero of the story,” Stephens says. That has paid off in the growing number of people who peruse the website and then request a free consultation. She turns to Google Analytics to track the amount of time people spend on the site, and notes that user engagement has been going up. As she says, “If you don’t measure it, why do it? Tracking allows us to spend time on those areas that have the greatest impact.”

Stephens looks forward to more in-person events and to being able to network in the community again—but she also expects to continue adding virtual content to the website every month. “I don’t think face-to-face is totally going away,” she says. “People are craving connection and they just really need that human contact.”

Relentless pursuit of goals—with a personal touch

While technology has long been changing the independent advisory landscape, the pandemic sped up those changes. Consider True North Advisors. The firm was using virtual tools even before the pandemic and had started meeting clients via Zoom. Once everything shut down, it didn't take long for clients and staff who had been resisting online meetings to come on board. In the process, clients have discovered benefits in virtual relationships. A 45-minute virtual meeting became more appealing than a 2-hour round trip in traffic to the office. "It's incredible how productive and efficient you can be and how much you can accomplish virtually," says CEO Scott Wood.

The firm's staff of 40 in two offices is made up of teams with distinct responsibilities, such as business development, investments, portfolio management, client service, wealth advisory, and operations and support. While the wealth advisors, who have day-to-day responsibility with clients, did a lot of handholding when the market crashed, "our lead generation and sales folks never paused from a new-business perspective," Wood says. The firm's structure "served us extremely well during COVID."

The result was stunning—but not surprising. The firm beat its 2020 revenue goal by more than 30%.

To help ensure that the firm continues on pace toward its growth goals and targets clients that are a best fit, every 90 days the leadership team reviews the characteristics of its ideal client and confirms if changes are needed. If so, changes are communicated to the team.

Case study at a glance

Firm name: True North Advisors

Firm size: \$2.5 billion in AUM

Employees: 40

Firm founded: 2000

Highlights

- Pandemic accelerated adoption of technology already in place
- Lead generation and sales teams focus on driving firm growth
- Personal connections with clients fostered virtually in 2020
- Company culture supported through online tools and events



Scott Wood
Co-Founder and CEO

“It's incredible how productive and efficient you can be and how much you can accomplish virtually.”

Scott Wood
Co-Founder and CEO

TRUE NORTH ADVISORS (CONTINUED)

Cultivating relationships

True North's leaders expect their advisors to connect with clients personally—"not with a portfolio in front of you," as Wood says. "You have to take time away from the work we do and just build a relationship with a client. They have to know who you are at your core." This continued during the pandemic with casual Zoom calls and virtual happy hours with clients.

Wood's biggest concern was maintaining the company culture when people weren't in the office together. It turned out not to be a problem, thanks to WhatsApp, which the firm had adopted some time ago to help staff connect through group chats, congratulations, photos, and personal news. The company also held virtual "town hall meetings" where staff could raise any topic for discussion, hosted team happy hours and online trivia competitions, and sent all employees COVID care packages.

Looking ahead

Some changes resulting from the pandemic will be lasting. "We're in the virtual meeting world now," Wood says. "We're going to figure out how to leverage that."

The firm recently hired a new marketing director, who is ramping up their digital marketing strategy, which Wood sees as integral to long-term success. In all, the company brought on half a dozen new hires through the pandemic. Interviewing someone remotely is far from ideal. "Obviously you'd like to be face to face when you hire somebody," Wood says. But they have decided to keep one aspect of the remote hiring process: "We're going to do all our prescreening by Zoom."

Wood says much of True North's success comes from the staff's distinctive roles yet consistent purpose. While the tools may change from in-person to virtual, the process of serving clients remains the same. "I think we hit all our goals last year because we have this system in place that's driving the business," he says, "and we all know what we're supposed to do."

“You have to take time away from the work we do and just build a relationship with a client. They have to know who you are at your core.”

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Discover more findings from the 2021 RIA Benchmarking Study to gain insights into how advisors of all sizes have continued to thrive and grow their firms.

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Notes

- ⁱ In this document, “smaller firms” refers to firms with less than \$250 million in AUM, and “larger firms” refers to those with \$250 million or more in AUM. Median results unless otherwise noted.
- ⁱⁱ In establishing growth rates, firms that engaged in acquisitions or divestitures and had advisors join or leave are excluded.
- ⁱⁱⁱ Organic growth is the change in a firm’s assets from new, existing, and lost clients before investment performance is taken into account, and it excludes the growth from acquisitions or divestitures and from advisors joining or leaving.
- ^{iv} Independent advisor industry transactions, February 2021, Charles Schwab.
- ^v Median results include only those firms investing in training, education, and professional dues or licensing for staff.
- ^{vi} Based on firms that use these strategies and track if inquiries/leads are generated.
- ^{vii} See sidebar on page 5 for a definition of Top Performing Firms.
- ^{viii} Based on firms that track their progress toward new client goals.
- ^{ix} Average spend on marketing and business development as a percent of revenue.

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About the 2021 RIA Benchmarking Study from Charles Schwab

Schwab designed the RIA Benchmarking Study to capture insights in the RIA industry based on survey responses from individual firms. The 2021 study provides information on topics such as asset and revenue growth, sources of new clients, products and pricing, staffing, compensation, marketing, technology, and financial performance. Since the inception of the study in 2006, more than 4,100 firms have participated, with many repeat participants. Fielded from January to March 2021, the study contains self-reported data from 1,340 firms that custody their assets with Schwab or TD Ameritrade and represents over \$1.5 trillion in assets under management, making this the leading study in the RIA industry. Schwab did not independently verify or validate the self-reported information. Participant firms represent various sizes and business models. They are categorized into seven peer groups by AUM size. The study is part of Schwab Business Consulting and Education, a practice management offering for RIAs. Grounded in the best practices of leading independent advisory firms, Business Consulting and Education provides insight, guidance, tools, and resources to help RIAs strategically manage and grow their firms.

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