

2014 RIA Benchmarking Study from Charles Schwab

How RIAs are building a foundation for success

In 2013, registered investment advisors (RIAs) showed record growth and the highest profitability of any year since the inception of Schwab's annual RIA Benchmarking Study. However, if you remember back to 2009, some pundits were predicting that many RIAs would not survive the difficult operating environment. **How were RIAs able to buck the predictions and not only survive, but thrive?**

What drives strong RIA performance?

The vast majority of firms are meeting the challenges that come with growth



In fact, **more than one-third of RIAs have doubled their AUM and revenues** since 2009. And many more are on track to **double within the next two years.**¹

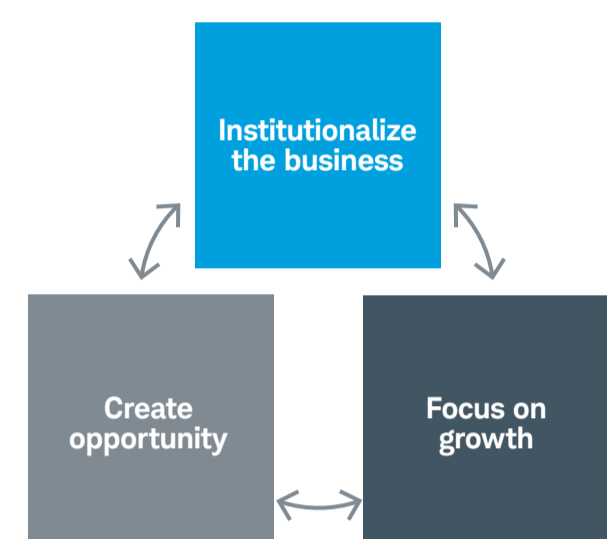


How are firms able to achieve such remarkable organic growth?

Best-Managed Firms embrace three important ideas that allow them to grow year after year. They institutionalize their business and build enduring enterprises; they relentlessly pursue growth opportunities; and they establish opportunities for talented people to have a stake in the firm's success.

Their strategic initiatives align with the virtuous cycle

The virtuous cycle



Top 5 strategic initiatives

- 1 Acquire new clients through client referrals
- 2 Acquire new clients through business referrals
- 3 Enhance strategic planning and execution
- 4 Implement a client segmentation plan
- 5 Recruit staff to increase firm's skill set/capacity

Creating a virtuous cycle means doing the following 3 things well:

Institutionalize your business

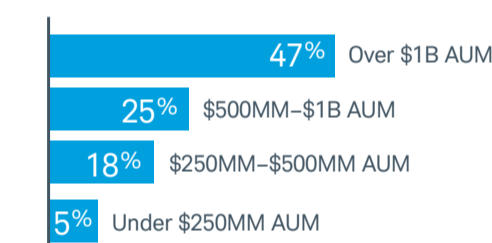


Operational discipline yields results

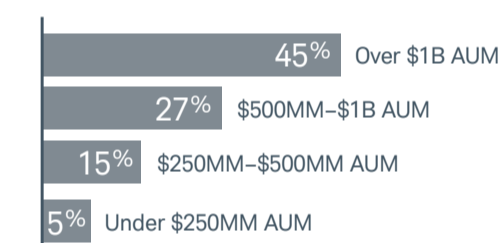


Dedicated management creates capacity for growth

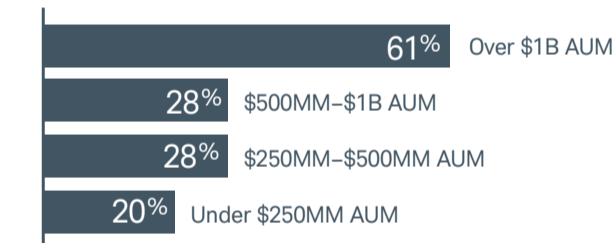
Firms with Chief Operating Officer



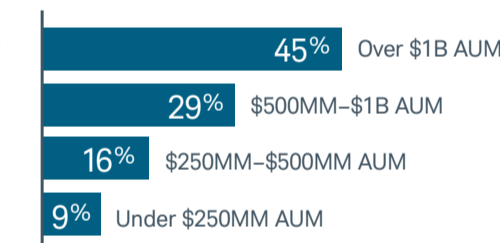
Firms with Chief Compliance Officer



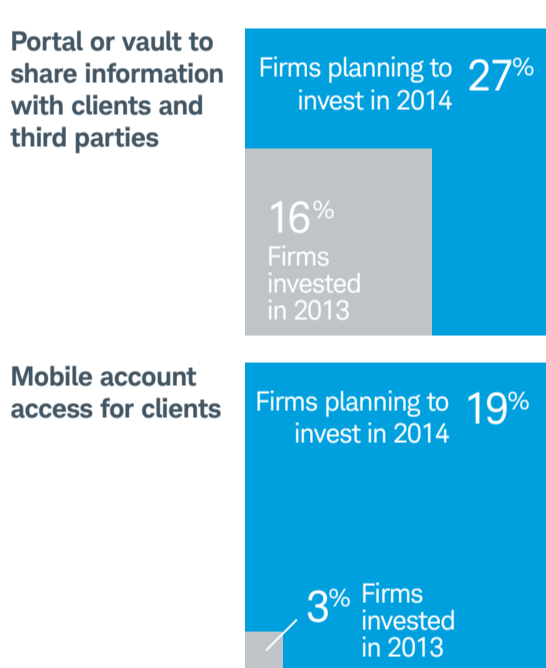
Firms with Operations Manager



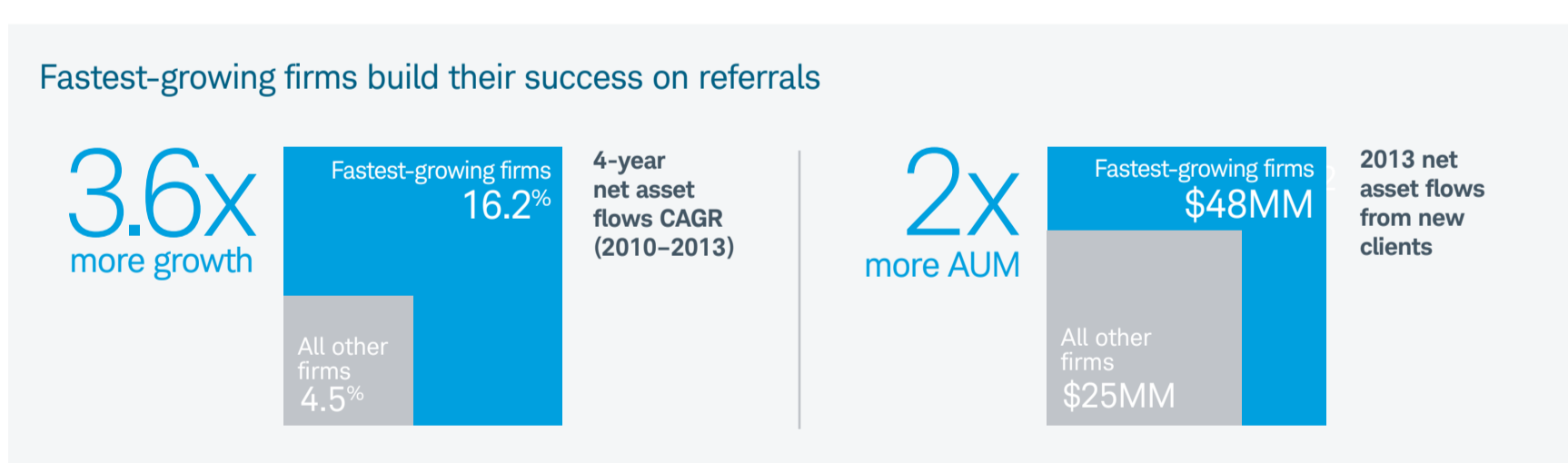
Firms with Chief Investment Officer



Technology can help build stronger relationships

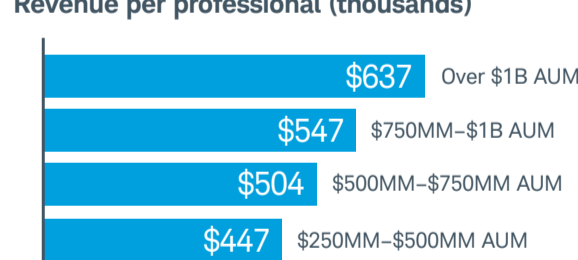


Keep your focus on growth

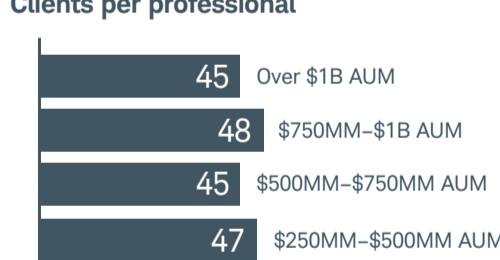


Larger firms experience the benefits of scale

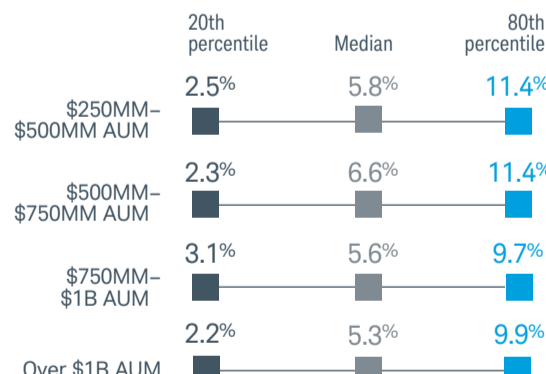
Revenue per professional (thousands)



Clients per professional



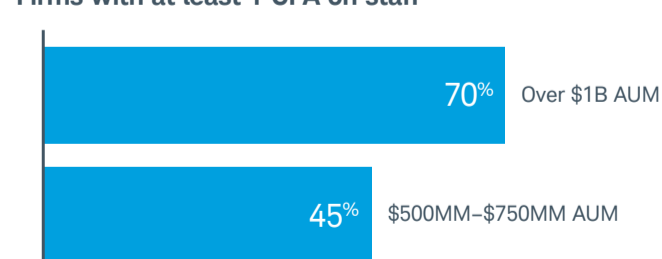
But firms of all sizes are capable of superior growth



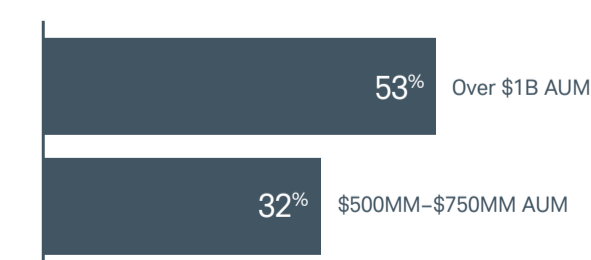
Create opportunity for your employees

RIAs are attracting and retaining talented people

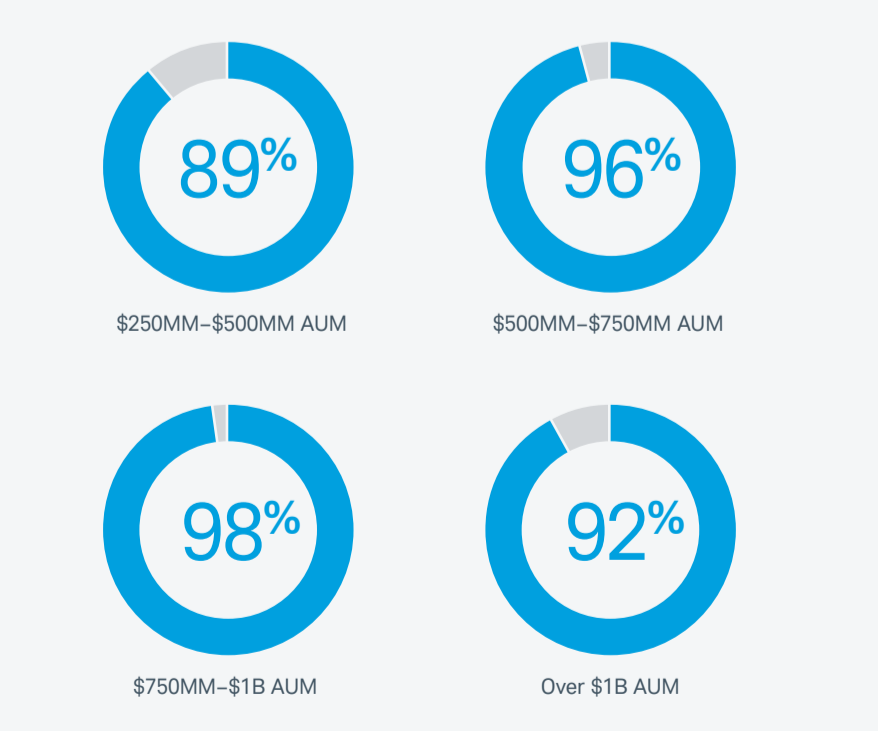
Firms with at least 1 CPA on staff



Firms with at least 1 JD on staff



But turn inward for successors



Own your tomorrow

Meant for institutional audiences.

1. All firms in the study that manage \$250 million or more in assets were examined as a group with regard to their self-reported assets under management (AUM) compound annual growth rate (CAGR) over the 4-year period from 2010 through 2013. Firms with a historical 4-year CAGR of 7% or greater—representing both market performance and organic growth—are projected to double in size by the end of 2019 if they continue a similar trajectory they experienced from 2010 through 2013. Past performance is no guarantee of future results. From 2010 through 2013, the 4-year asset-allocated CAGR was 7.7% at the median.

Schwab designed this study to capture insights in the RIA industry, based on survey responses from individual firms. The 2014 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, nearly 2,800 firms have participated, with over half being repeat participants. A total of 1,132 advisory firms representing three-quarters of a trillion dollars in AUM that custody their assets with Schwab participated this year, making this the leading study in the RIA industry.

The RIA Benchmarking Study comprises self-reported data from advisory firms that custody their assets with Schwab. Schwab did not independently verify the self-reported information. Participant firms represent various sizes and business models. They are categorized into 12 peer groups—7 wealth manager groups and 5 money manager groups, by AUM size.

Best-Managed Firms represents advisors in the study who are in the top 20% of qualifying firms, ranked by productivity (2013 revenue per professional), profitability (2013 standardized operating margin), revenue growth (2009-2013 CAGR in revenue) and net asset growth (2009-2013 CAGR from net asset flows). The top 20% of firms was calculated after removing those with less than \$1 million in revenue or fewer than two professional staff.

Best-Managed Firms were selected without regard to peer group, and most groups are represented in the Best-Managed Firms group.

The fastest-growing firms are the top 20% of firms as determined by net organic growth (2009-2013 net organic CAGR). This cohort includes 108 firms out of 541, all of which have \$250 million or more in AUM. This group represents 91% of the total assets of all firms in the study. Net organic growth—the change in assets from existing clients, new clients, and assets lost to client attrition—is the area over which RIAs have most control. Thus, it is the growth metric used for the analysis.

For informational purposes only. All stats in this infographic are based on Schwab's 2014 RIA Benchmarking Study unless otherwise noted, and include all firms with at least \$250 million in AUM, representing the vast majority of total assets managed by this year's participants.

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