Three Qualities that Define Top Performers

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May 8, 2012

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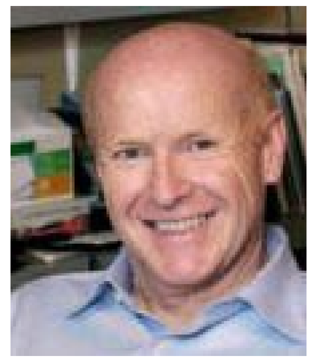

Regardless of market conditions or the business environment, some advisors inevitably expand their business at the expense of their peers.

How exactly do those advisors do it?

Late last year, a report released by software-provider PriceMetrix identified three common traits among advisors who were able to show sustained growth in their practices.

How the research was done

PriceMetrix is a Toronto-based firm specializing in the investment industry. They work with a cross section of mid-size and large U.S. and Canadian full-service brokerage firms, and have access to data on 15,000 advisors, three million investors and over $900 billion in assets.

PriceMetrix looked at the 12 months to June 2011, analyzing advisors with similar styles of business (primarily transactional, fee-based or managed) and similar tenure in the industry. Looking at growth in assets and revenue, they called advisors in the top quartile of growth in their category "*outperformers,"* and compared their performance to the advisors in the bottom quartile in that same category. To keep the data consistent, they excluded smaller producers and advisors with less than three years of industry experience.

Quantifying outperformance

In June 2010, when the study began, the outperforming and bottom-performing groups advisors both averaged assets of about $85 million. Twelve months later, the outperformers' average assets were $15 million higher than the comparison group.

And while both groups averaged 200 households, the outperformers had significantly better growth in assets, revenue and return on assets:

June 2011 (change in last 12 months)	Outperformers		Comparison Group	
Average assets ($millions)	$106M	+27%	$91M	+7%
Average assets per household	$540,608	+24%	$452,580	+16%
Average household revenue	$4,002	+31%	$3,014	+4%
Average return on assets	$0.74	+6%	$0.67	-11%

As for revenue, in the 12 months to June 2010 leading up to the study, the comparison group's revenue averaged $633,000 versus $581,000 for the outperformers.

During the next 12 months, the numbers reversed, with the outperformers' revenue up 34% to $782,000versus a decline for the comparison group to $606,000.

PriceMetrix observed three widespread patterns among advisors who outperformed:

1. Replacing smaller accounts
2. Transitioning to fee-based and discretionary businesses
3. Using disciplined pricing across their practices

Replacing smaller accounts

Most advisors have small accounts that generate annual revenue of less than $250. In some instances, these are family members of key clients and make strategic sense. In many other cases, however, these are legacies of advisors' early days in the business when every client was a good client. These smaller clients may have made sense then; but given how much time advisors can afford to give them today, at this point neither advisors nor smaller clients are typically well served by working together.

In the 12 months studied, 24% of outperformer households generated less than $100 in revenue, compared to 31% for the comparison group. During this period, both outperformers and comparison group advisors closed accounts; in both cases the average annual revenue for closed accounts was about $700. The difference is what the outperformers did to replace those closed accounts.

In the 12 months ending June 2011, outperformers opened an average of 93 new accounts; 50% more accounts than they closed. By contrast, comparison group advisors opened 50 accounts; only 70% of the number that they closed. (Note that new accounts often are additional accounts from existing clients.)

And not only did outperformers open more new accounts, but those accounts were larger. After 60 days, their average new account was almost $200,000, nearly 40% more than the comparison group. The average annualized revenue of outperformers' new accounts was twice what they earned from closed accounts. So just comparing opened and closed accounts, outperformers earned twice the revenue per account on 50% more accounts.

Transition to fee based and discretionary business

All the advisors in the study derived the majority of revenue from traditional, transactional business. What separated outperformers was their emphasis on moving to fee based and discretionary accounts for clients where it made sense to do so.

In the 12 month period studied, the average outperforming advisor opened 23 fee-based accounts, compared to only nine for the comparison group. Outperformers saw a 40% increase in discretionary assets, and 21% growth in assets in fee and managed accounts; both 50% higher than for the comparison group.

As a result, last spring, outperformers had 29% of assets in fee-based, managed and discretionary accounts versus 21% for comparison advisors. And almost four in 10 of outperformers' clients held fee-based accounts versus 15% for the comparison group.

Disciplined pricing

All advisors recognize the importance of effective pricing across their practices, but outperformers were much more likely to act on that understanding.

Their discounts on large trades were significantly less than those of the comparison group, and their return-on-assets was substantially higher regardless of level of household assets. From the smallest households to the largest, outperformers' return-on-assets was 20% to 25% higher than for comparison advisors. And that gap is widening; in every category of household assets ranked by size, outperformers successfully increased their return-on-assets while in every instance the comparison group advisors saw that return-on-assets decline.

This is demonstrated in pricing for accounts with between $1 and $10 million. Those accounts averaged $5 million for both outperformers and their comparison group; yet there was a substantial difference in revenue-on-assets: 0.91 for the outperformers versus 0.77 for the comparison group.

Acting on the lessons from outperformers

Many advisors started 2012 with good resolutions for their business which have gone by the wayside.

If you're in that category, recognize that the year is far from over. Consider picking one of the three strategies that PriceMetrix identified as your new resolution for the balance of 2012. It can be replacing small accounts with new ones, being more disciplined about pricing or making fee and discretionary pricing a bigger part of your business. Consistently implementing that activity for the balance of the year will help you join the outperformer category when it comes to revenue growth for your business.

You can read the full report or listen to a discussion of the research.

Dan Richards conducts programs to help advisors gain and retain clients and is an award winning faculty member in the MBA program at the University of Toronto. To see more of his written and video commentaries, go to www.clientinsights.ca. Use A555A for the rep and dealer code to register for website access.