

RIA firm assets grew more slowly in 2007 while employee head counts were up—signs of heightened competition and perhaps the end of an easy-growth era.

slower build

FA's RIA
2008
SURVEY

By Robert Casey

FA's 2008 RIA Survey

GROWTH SLOWED last year among independent advisors. Assets under management gained 18.36% in 2007 at the firms participating in *Financial Advisor's* third annual RIA Survey. That compares with a 25.00% growth rate in 2006.

Why the slowdown? The chief culprit was a lagging stock market. As measured by the Standard & Poor's 500 index, the market posted a return of just 5.5% last year, down from 15.7% in 2006. That means existing account balances on average didn't gain much. The size of the median client relationship grew just 6.58% to \$1.18 million among the 384 firms with \$75 million in assets or more that participated in the survey. (FA's ranking of those RIA firms, compiled in conjunction with the help of the Discovery database maintained by the Financial Information Group of Red Bank, N.J., follows this article. Firms with less than \$75 million are ranked on our Web site, www.fa-mag.com.)

Hardly a bad year, to be sure. But the survey results also throw a spotlight on some areas of concern. While subpar markets can hurt asset growth, they can also drive more new clients through the door. As the 2001-2002 experience revealed, this kind of environment lays a foundation for future growth, but it places intense demands on a firm's resources and human capital.

Such is the case with Accredited Investors of Edina, Minn., which has assets of \$741 million. "We're getting clients because they want more than

just asset management when the markets are confusing like this," says Ross Levin, president. "But our assets don't go up as rapidly. It's good ultimately because when the markets rebound you've got a bigger client base. But in the near term, it's difficult."

These dynamics have helped the independent RIA industry expand over the last two decades. But last year, in a choppy, lackluster market, the median rate of new-client acquisition actually fell among the independents, dropping to 10.05% from a 2006 level of 17.32%.

Another possible sign of trouble: Employee head counts expanded in

2007 by a median 20.0%, outpacing growth in assets under management. This has not happened in recent years in the independent RIA industry, and may well be unprecedented.

What gives? Both of those phenomena can be taken as evidence of heightened competition among RIA firms and perhaps as signs that the era of easy growth in the industry is coming to a close. Slower growth, if indeed it is arriving, will put a premium on each firm's ability to aggressively acquire new clients instead of merely taking in those who show up at the door. Smart and capable employees are essential for firms

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Growth In 2007

ASSETS UNDER MANAGEMENT BY ASSET SIZE	2007 (\$BILLIONS)	2006 (\$BILLIONS)	CHANGE
≥ \$1 Billion	136.30	115.15	18.36%
\$500 Million to < \$1 Billion	43.90	37.83	16.06
\$300 Million to < \$500 Million	21.44	17.96	19.38
\$100 Million to < \$300 Million	30.06	24.80	21.24
\$75 Million to < \$100 Million	3.43	2.89	18.51
All Firms	235.13	198.63	18.38

that want to develop and execute successful growth strategies. The challenge is to bring them on without letting compensation costs get out of hand. So it's no wonder that human capital issues—recruitment, compensation, training, career development, employee ownership, etc.—have become Topic A in the independent RIA industry.

Another hot topic is consolidation, as merger and acquisition activity continued to percolate last year among RIA

Advisory Firm Characteristics

FIRM CHARACTERISTICS	MEDIAN	CHANGE
Number of client relationships	230.00	10.05%
Size of average relationship (\$MM)	1.18	6.58
Number of employees	12	20
Years in business	21	14

Investment Vehicles

SHARE OF CLIENT ASSETS	2007	2006
Separately managed (managed in-house) securities accounts	16.80%	17.04%
Separately managed (outside manager) securities accounts	6.98	7.38
Mutual funds, including money market funds	55.67	56.93
Exchange traded funds	10.18	8.62
Funds of hedge funds	1.89	2.01
Hedge funds	1.20	1.07
Other	7.27	6.94
Total	100%	100%

Revenue Sources

SHARE OF FIRM'S REVENUES	2007	2006
Asset-based fees	85.05%	84.51%
Commissions, including trails	4.85	5.42
Hourly or ad hoc fees for individual services	2.49	2.72
Annual retainer fees	5.45	5.10
Net worth-based fees	0.34	0.26
Other	1.82	1.98
Total	100%	100%

firms, the survey shows. For example, one in four (24.03%) of all firms report holding exploratory merger talks in the past three years. And 14.73% say they have done a deal in that period, up from 9.92% in 2006. Yet merger activity remains concentrated largely at the top. A third of the firms with \$1 billion or more (34.55%) report some merger activity in the past three years, up from 14.89% a year ago.

Among last year's noteworthy transactions: the merger of Kochis Fitz of San Francisco and Quintile Wealth Management of Los Angeles to form Aspiriant. The new firm's combined assets were \$5.07 billion at the end of 2007,

a gain of 18.52%, making it more than twice the size of either of its predecessors. Aspiriant has since announced an aggressive strategy to expand nationwide from its California market.

Also bulking up in 2007 was GenSpring Family Offices of Palm Beach Gardens, Fla. The fast-growing multifamily office acquired TBK Investments of Miami and Inlign Wealth Management of Phoenix, both with assets of about \$1.5 billion, helping GenSpring end the year with a 33.01% increase in assets under management to \$13.13 billion.

Overall, merger activity had an impact on asset growth at top-tier firms

but did not affect the broad universe of independent RIAs. Indeed, aggregate across-the-board growth in 2007 was remarkably uniform for different asset size categories. Firms in the \$100 million to \$300 million range did best, with an increase of 21.24% in assets under management. The laggards were those with between \$500 million and \$1 billion, a group that grew by 16.06%. As noted, the assets of all participants grew 18.36%, to a total of \$235.13 billion.

Within each asset category, however, wide result variations jump out. For example, one in every six firms grew by 30% or more last year, down from almost two in six during 2006. In contrast, one in four posted less than 10% asset growth, compared with one in six firms that missed 10% in 2006. Clearly, firms that depend on market returns to grow and stay prosperous faced severe challenges in 2007, even more so where their investment performance happened to lag the markets.

And if, as some observers have predicted, a new era of single-digit market returns has dawned, one consequence could be a shakeout of weaker firms in the independent RIA space, heretofore a fairly benign environment. The wide variations in asset growth among RIAs last year are signs of a new world where the haves are pitted against the have-nots, and the outlook for the latter gets more and more uncertain.

What do the "haves" have that distinguishes them? The list probably includes the following: top-quality people, a client-centric culture, professionalism, a strong brand and an attractive market. Increasingly, there's another factor that needs to go at or near the top of that list: an effective growth strategy. Surprisingly, given the fairly uniform nature of the services offered by independent RIA firms, successful growth strategies can vary all over the lot, even if they have only one primary objective, which is to bring in attractive new clients.

But however different a firm's particular approach may be, does the strategy make sense for the firm? Is it ambitious enough? Is it feasible? Can it yield results in a reasonable time? Is it scalable into

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the future? Can management execute it profitably? Will it build the business? Is it what the firm wants to do? For a strategy to be effective, the answer to all of these things should be "yes."

Too often, it's assumed that an effective growth strategy has to be synonymous with mergers and acquisitions. Most likely, that approach is going to prove to be a winner for large organizations like GenSpring, Aspiriant and many others. But for most independent RIAs, it is neither an attractive option nor a feasible one. "We haven't done a merger, or any kind of acquisition, and we don't intend to," says Ross Levin of Accredited Investors.

He can afford to take that posture, as Accredited starts to approach \$1 billion in

assets. The challenge for firms like his is to grow organically at a better-than-average pace. And doing so often means focusing on referrals. True, it's basically a referral business anyway—first, last and always. The trick to turning that into an effective growth strategy is to build a referral engine, soup it up, fine-tune it and put it to work with a distinctive service offering.

Levin is the first to admit there's an element of serendipity in finding clients who become powerful referral generators. "We've been getting a lot of referrals," he says. "And those referrals from our clients have gotten bigger. Some of it is simply not replicable, meaning that we have some clients who turned out to be terrific referrers, and we wouldn't

have known that in the first place. But they introduced us to pockets of their peers and friends who all happen to be high-net-worth people, and many of them have come on board. So it would be hard to do a diagnostic and say this is what you need to do in order to build the business this way. In a sense, it's happenstance, but I think that combines with the good work we do for clients to give us a pretty good growth rate."

Patrick Horan, president of Horan Capital Management of Baltimore, has harnessed referrals to help give his firm a national reach where it was once focused only on regional clients. Ten years after starting his business in 1995, Horan realized that change was essential. "I decided that in order to grow the business I really needed to have a growth strategy," he says. "I needed to start working on the business rather than in the business."

To kick-start growth, Horan decided to vastly expand the geographic footprint of what had been his two-advisor local shop. He hired six advisors in 2006 and added four more in 2007, using the new manpower to expand into major national markets. The new advisor force works from their homes, covering their territories and seeing clients on the road. The total employee head count is 24, including client service and investment people.

With this arrangement, Horan Capital saves the considerable expense of operating a branch office network in ten regions and, according to Horan, the lack of local offices has not proved to be a problem for clients. "I'm sure it has come up," he says. "But it's an objection that we usually deal with.

"In these days, it doesn't make sense to have bricks and mortar. You don't need to," he says. "People want to be touched. They want good client service. They want a firm that has their best interests at heart. If you can service them via the Internet, by telephone, I think people are more open to it these days.

One key to Horan Capital's success has been the TD Ameritrade Advisor Direct referral program. His firm is one of a handful that is offered referrals nationally by TD Ameritrade under the program. Horan Capital manages port-

Firms Most Likely To Merge

ANY M&A ACTIVITY IN LAST THREE YEARS? BY ASSET SIZE	YES	NO
≥ \$1 Billion	34.55%	65.45%
\$500 Million to < \$1 Billion	19.05	80.95
\$300 Million to < \$500 Million	12.73	87.27
\$100 Million to < \$300 Million	8.62	91.38
\$75 Million to < \$100 Million	10.00	90.00
All Firms	14.73	85.27

How Client Assets Vary

TOTAL CLIENT ASSETS BY ASSET SIZE	BY RELATIONSHIP SIZE		BY ASSETS PER PROFESSIONAL	
	MEAN (\$MM)	MEDIAN (\$MM)	MEAN (\$MM)	MEDIAN (\$MM)
≥ \$1 Billion	7.75	2.84	149.25	91.79
\$500 Million to < \$1 Billion	2.92	1.75	77.06	67.97
\$300 Million to < \$500 Million	1.49	1.18	65.12	49.88
\$100 Million to < \$300 Million	1.17	1.03	47.84	46.12
All Firms	2.45	1.18	69.41	54.55

Advisory Firm Employees

AVERAGE NUMBER BY ASSET SIZE	2007 MEAN	%CHANGE
≥ \$1 Billion	55.11	22.58%
\$500 Million to < \$1 Billion	19.97	-1.94
\$300 Million to < \$500 Million	13.60	11.61
\$100 Million to < \$300 Million	7.76	0.30
\$75 Million to < \$100 Million	6.65	2.93
All Firms	17.19	19.21

Strategic Initiatives By Firms

STRATEGIC INITIATIVE	DID IN PAST 3 YEARS?		HOW LIKELY IN NEXT 12 MONTHS?				
	YES	NO	VERY LIKELY	SOMEWHAT LIKELY	SOMEWHAT UNLIKELY	VERY UNLIKELY	DON'T KNOW
Hire strategy consultant	34.63%	65.37%	7.49%	13.44%	12.40%	40.83%	5.43%
Change firm name	12.40	87.60	2.07	1.55	6.20	69.51	1.81
Obtain a valuation appraisal	18.35	81.65	4.39	8.53	13.95	51.16	4.65
Add one or more offices	18.09	81.91	11.11	9.04	12.14	47.55	3.62
Hold exploratory merger talks	24.03	75.97	5.43	12.14	14.47	47.03	4.91
Reject a merger proposal	16.02	83.98	7.75	6.98	11.63	35.66	21.19

Service Menus Of Firms

	NOW OFFER IN-HOUSE	NOW OFFER VIA OUTSOURCING	CLIENTS USING THIS SERVICE	LIKELY TO START OFFERING IN NEXT 12 MOS.
Financial planning	92.51%	2.58%	97.90%	0.78%
Tax planning	70.03	10.08	113.36	1.03
Insurance planning	70.03	11.37	73.96	0.26
Estate planning	70.03	13.95	73.17	0.78
Asset allocation	95.87	0.52	125.68	0.52
Mutual fund selection/oversight	91.73	1.29	21.51	1.03
Manager selection/oversight	63.31	2.84	133.13	1.03
Fund of hedge fund selection/oversight	28.94	4.91	8.32	2.84
Hedge fund selection/oversight	23.51	4.65	7.48	3.62
Equity management	61.50	8.01	14.94	0.52
Bond management	66.41	10.08	14.50	0.52
Charitable counseling	66.15	3.88	39.63	1.29
Business advisory services	45.22	7.75	20.74	0.26
Family counseling	23.77	8.79	5.21	1.29
Life management/concierge	20.41	5.68	5.81	1.55
Bill paying	15.25	10.08	2.04	1.81
Tax preparation	22.22	21.45	81.14	0.78
Group 401(k) advice/sales	49.61	5.68	6.47	2.07

folios of individual securities using what its president describes as a deep intrinsic value style of investing, à la Ben Graham. Assets under management grew 110.53% last year to \$480 million, and Horan says he is now focused on reaching the \$1 billion mark.

Another RIA firm with a hard-charging growth strategy and an effective referral engine is Presidio Wealth Management of San Francisco. The firm's target market is entrepreneurs, and it helps attract their assets by offering them private equity funding and other services through affiliated companies.

"We're very attractive to business

builders," says Brodie L. Cobb, chief executive of Presidio. "They like our model. It's easy for them to understand. It's transparent. We're entrepreneurs. We're business guys. And they like the other businesses we're in. The fact that we can bring it all together is very appealing to business builders. They need capital. They like to monetize assets and they like to have their wealth managed in a transparent way."

Assets under management grew 31.49% last year to \$3.81 billion, helped by a flow of assets from clients doing deals with Presidio's affiliates. A typical private equity deal might involve a

recapitalization where a Presidio affiliate and other investors take a minority position in an entrepreneur's business, allowing the owner a partial cash-out. Presidio Wealth Management will seek to manage the client's new liquid position and will be there asking to manage the rest when the company eventually is sold. "A lot of entrepreneurs are young," says Cobb. "They sell that company, then get bored after six months and start another one. We have been in business long enough—a little over ten years—that we're now selling the second company for people. And so that's why we focus on this group."

Top 10 Fastest-Growing Firms (By Asset Category)

	GROWTH RANK	FIRM NAME	LOCATION	% GROWTH IN ASSETS 2006-2007	YEAR END 2007 ASSETS (\$MM)
\$1 Billion And Over	1	myCIO Wealth Partners	Philadelphia, Pa.	85.92	4,510.60
	2	The Mutual Fund Store	Overland Park, Kan.	54.37	4,078.44
	3	Index Funds Advisors	Irvine, Calif.	50.63	1,058.92
	4	Moneta Group Investment Advisors	St. Louis, Mo.	37.43	7,932.46
	5	Signature Estate & Investment Advisors	Los Angeles, Calif.	35.26	1,376.90
	6	Plante Moran Financial Advisors	Southfield, Mich.	34.19	5,364.89
	7	GenSpring Family Offices	Palm Beach Gardens, Fla.	33.01	13,132.95
	8	Presidio Wealth Management	San Francisco, Calif.	31.49	3,813.16
	9	Ballentine Finn & Company	Wolfeboro, N.H.	30.33	1,995.00
	10	Westcott Financial Advisory Group	Philadelphia, Pa.	27.08	1,525.00
\$500 Million To \$1 Billion	1	Greenwich Wealth Management	Greenwich, Conn.	2,428.57	885.00
	2	Rehmann Financial	Lansing, Mich.	710.78	564.58
	3	Whitnell & Company	Oak Brook, Ill.	95.69	747.69
	4	Patriot Wealth Management	Houston, Tex.	43.20	649.27
	5	Legacy Wealth Management	Memphis, Tenn.	38.23	573.37
	6	Fairway Wealth Management	Cleveland, Ohio	38.11	540.01
	7	CFS Investment Advisory Services	Totowa, N.J.	33.70	631.22
	8	Cassaday & Company	McLean, Va.	25.29	918.01
	9	Brinton Eaton Wealth Advisors	Morristown, N.J.	24.95	538.03
	10	Abacus Wealth Partners	Sebastopol, Calif.	23.44	808.37
\$300 Million To \$500 Million	1	IPI Asset Management	Decatur, Ill.	346.83	428.44
	2	Horan Capital Management	Baltimore, Md.	110.53	480.00
	3	RG Capital	Scottsdale, Ariz.	108.33	450.01
	4	Sovereign Wealth Management	Memphis, Tenn.	64.55	449.33
	5	Camden Capital Management	El Segundo, Calif.	50.00	300.00
	6	JWA Financial Group	Dallas, Tex.	40.37	413.58
	7	Burns Advisory Group	Oklahoma City, Okla.	39.93	323.10
	8	Heritage Financial Service	Norwood, Mass.	33.33	440.00
	9	New England Investment & Retirement Group	North Andover, Mass.	28.80	322.00
	10	Legend Financial Advisors	Pittsburgh, Pa.	28.60	323.97
\$100 Million To \$300 Million	1	Stevens First Principles Investment Advisors	Newport Beach, Calif.	689.54	233.00
	2	Wealthquest Corporation	Cincinnati, Ohio	163.08	171.00
	3	Nixon Peabody Financial Advisors	Rochester, N.Y.	151.22	152.26
	4	McKinley Carter Wealth Services	Wheeling, W. Va.	145.95	294.90
	5	J W Coons Advisors	Columbus, Ohio	127.72	104.04
	6	Corestates Capital Advisors	Newtown, Pa.	121.53	295.35
	7	CRA Financial Services	Northfield, N.J.	110.00	211.27
	8	Wealth Health	Roseland, N.J.	85.45	102.00
	9	Hallett & Associates	Port Angeles, Wash.	83.52	162.00
	10	Edge Portfolio Management	Winfield, Ill.	81.82	100.00
\$75 Million To \$100 Million	1	Vermillion Financial Advisors	South Barrington, Ill.	376.47	81.00
	2	Century Wealth Management	Memphis, Tenn.	140.71	88.76
	3	Triton Wealth Management	Annapolis, Md.	35.97	84.30
	4	Allen Capital Group	Grand Island, Neb.	31.22	82.51
	5	Salem Partners Wealth Management	Los Angeles, Calif.	27.99	78.07
	6	Family Wealth Advisory Group	Cincinnati, Ohio	26.31	77.78
	7	Dorman Financial Management	Maitland, Fla.	25.00	95.00
	8	F.I.G. Financial Advisory Services	Edmond, Okla.	23.96	88.56
	9	JVL Associates	Wyoming, Mich.	22.54	97.30
	10	Caton Financial	Larkspur, Calif.	21.63	95.73

Source: Discovery

FA's 2008 RIA Ranking (By Total Assets)

2007 TOTAL ASSETS RANK*	FIRM NAME	LOCATION	YEAR END 2007 ASSETS (\$MM)	% GROWTH IN ASSETS 2006-2007	ASSETS PER CLIENT (\$MM)**	% GROWTH IN ASSETS PER CLIENT	RANK IN ASSETS PER CLIENT
95	PensionTrend Investment Advisers	Okemos, Mich.	607.78	9.94	3.04	7.74	54
96	Lara Shull & May	Falls Church, Va.	600.50	9.08	0.50	-9.10	334
97	Lau Associates	Wilmington, Del.	600.00	7.14	4.65	-2.82	34
98	Pinnacle Advisory Group	Columbia, Md.	581.00	20.04	1.13	8.85	204
99	Legacy Wealth Management	Memphis, Tenn.	573.37	38.23	1.37	23.42	164
100	M. J. Smith and Associates	Englewood, Colo.	570.00	8.57	1.19	16.49	193
101	Diversified Management	Milwaukee, Wis.	569.24	9.16	3.54	5.77	44
102	Rehmann Financial	Lansing, Mich.	564.58	710.78	0.26	614.29	372
103	Evensky & Katz	Coral Gables, Fla.	552.00	10.40	2.40	0.80	73
104	Mt. Eden Investment Advisors	San Francisco, Calif.	551.20	-8.54	9.19	-0.92	20
105	Sigma Investment Counselors	Southfield, Mich.	545.00	8.57	1.27	11.35	177
106	Aegis Wealth Management	Bethesda, Md.	544.00	7.09	8.00	-11.81	21
107	Fairway Wealth Management	Cleveland, Ohio	540.01	38.11	6.59	16.21	25
108	Brinton Eaton Wealth Advisors	Morristown, N.J.	538.03	24.95	2.34	15.17	76
109	L.J. Altfest & Co.	New York, N.Y.	535.80	15.37	1.49	3.16	139
110	Filament	Seattle, Wash.	524.61	15.22	30.86	-18.67	3
111	Abacus Planning Group	Columbia, S.C.	524.59	21.77	3.45	9.75	47
112	Lindner Capital Advisors	Marietta, Ga.	522.48	22.66	0.35	-3.25	360
113	Hallmark Capital Management	Wayne, N.J.	511.54	9.14	1.73	9.51	116
114	Stanford Investment Group	Mountain View, Calif.	510.96	-1.05	1.69	1.57	121
115	Diesslin & Associates	Fort Worth, Tex.	501.00	8.21	1.52	1.65	135

ASSET CATEGORY: \$300 MILLION TO <\$500 MILLION

116	Founders Financial Network	Cupertino, Calif.	482.55	10.87	6.03	-1.60	28
117	Summit Financial Strategies	Columbus, Ohio	480.15	20.63	1.22	10.17	187
118	Horan Capital Management	Baltimore, Md.	480.00	110.53	0.54	-14.07	321
119	The Monitor Group	McLean, Va.	461.85	4.75	2.33	1.05	77
120	Salient Wealth Management	San Rafael, Calif.	459.90	21.99	2.46	12.20	71
121	Briaud Financial Planning	Bryan, Tex.	459.78	11.65	1.92	13.51	104
122	R. E. Wacker Associates	San Luis Obispo, Calif.	459.44	25.13	1.11	-11.44	206
123	Retirement Investment Advisors	Oklahoma City, Okla.	454.95	17.38	0.53	10.28	325
124	Medley & Brown	Ridgeland, Miss.	453.00	10.90	1.00	5.27	232
125	RG Capital	Scottsdale, Ariz.	450.01	108.33	0.64	19.04	298
126	Sovereign Wealth Management	Memphis, Tenn.	449.33	64.55	2.38	11.44	75
127	Greenbaum and Orecchio	Old Tappan, N.J.	448.90	26.63	2.23	11.51	81
128	Mission Wealth Management	Santa Barbara, Calif.	448.52	6.00	1.16	-4.96	196
129	PDS Planning	Columbus, Ohio	440.05	10.78	1.32	1.50	171
130	Heritage Financial Service	Norwood, Mass.	440.00	33.33	1.10	16.67	210
131	IPI Asset Management	Decatur, Ill.	428.44	346.83	0.25	109.83	373
132	CPS Investment Advisors	Lakeland, Fla.	422.26	10.88	0.51	2.77	329
133	JWA Financial Group	Dallas, Tex.	413.58	40.37	1.03	9.64	226
134	Pinnacle Wealth Planning Services	Mansfield, Ohio	412.00	15.41	1.20	7.67	191
135	AMI Investment Management	Kendallville, Ind.	411.78	1.38	5.02	-1.10	33
136	Sharkey Howes & Javer	Denver, Colo.	408.25	16.80	0.42	1.37	349
137	Empirical Wealth Management	Portland, Ore.	406.57	17.54	0.84	17.06	264
138	Sadoff Investment Management	Milwaukee, Wis.	399.12	-0.01	0.95	3.09	239
139	Braver Wealth Management	Newton, Mass.	394.14	2.74	1.28	5.08	174
140	Stepp & Rothwell	Overland Park, Kan.	393.00	13.26	2.54	3.03	67
141	Mosaic Financial Partners	San Francisco, Calif.	388.08	20.36	1.81	13.61	111
142	Spero-Smith Investment Advisers	Cleveland, Ohio	386.05	7.96	1.44	11.58	149

*Discretionary and nondiscretionary assets under management reported on Form ADV. **Average assets per client relationship.