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Out of the Fire

Tempered by the financial crisis, the best RIA firms have grown stronger

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"If a Category 5 financial storm comes, you better have a plan," warns Steve Chapman, VP and portfolio manager at Weiss Capital Management, a Palm Beach Gardens, Florida, RIA firm that emerged from the 2008 economic storm not only unscathed but with net asset growth. The firm has seen a 22% increase in net assets since December 2008 and a 37% increase in gross assets so far this year. Due to his Florida location, Chapman knows a thing or two about storm preparation. "You can't invent the plan in the middle of the storm," he says. "Instead, you keep the plan on the sidelines until you need it."

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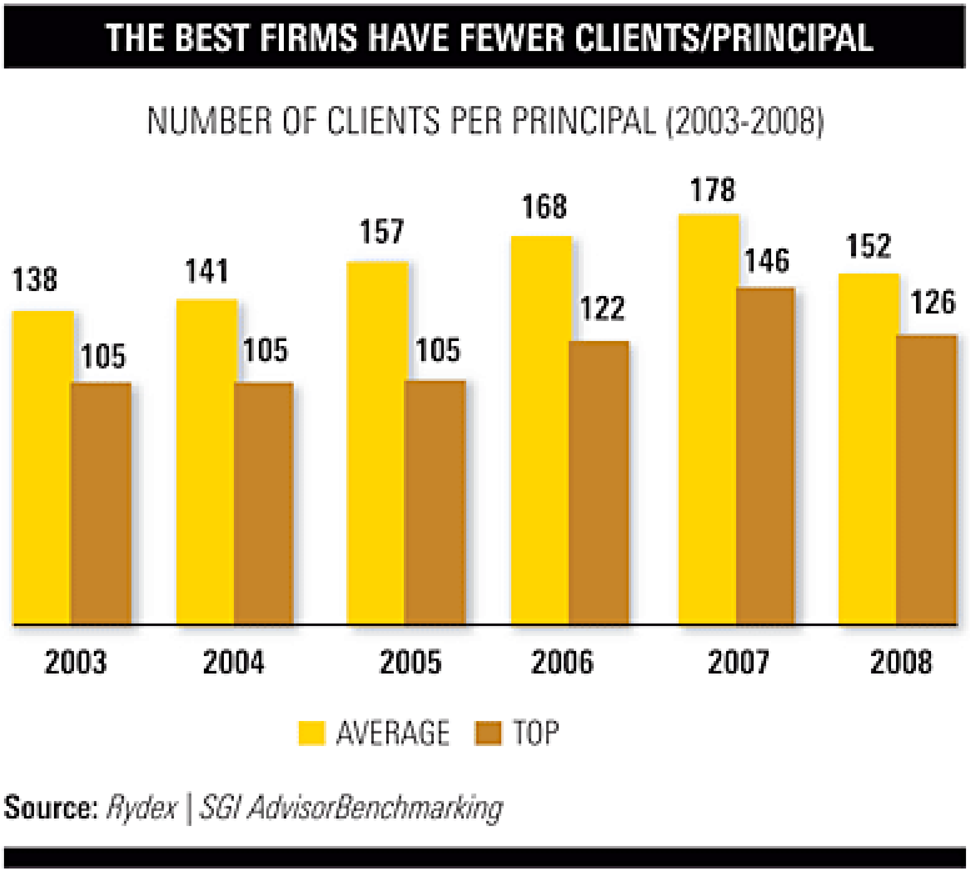
firm—which manages investment assets of individuals, pension plans, trust accounts, charitable organizations, foundations, and investment companies—utilizes a business plan, but also remains nimble in order to effectively deal with the changing nature of both the industry and of compliance requirements. "Our investment philosophy allows for flexibility and dynamic decision-making," says Sharon Daniels, the firm's president. The Nasdaq drop 10 years ago taught those in the industry many lessons. Weiss put a plan in place then—and, according to Daniels, "has had a decade to perfect that plan." In 2008, therefore, Weiss didn't need to make significant modifications to its business plan and product lineup. "We modified some strategies and techniques," Chapman says, "but we were pretty ready for it."

As the S&P 500 declined 37% in 2008, many advisors experienced decreased assets under management and declining revenues for the first time in six years. And while advisors as a whole weathered 2008's market turmoil better than the overall stock market itself—losing only 12%, according to the 10th annual Rydex|SGI AdvisorBenchmarking RIA survey on which this article is based—some advisors like Weiss were not only able to survive but also thrive. WE2, Inc., for example—an RIA firm based in Houston that provides a range of advisory services from mutual fund wrap portfolios to unified managed accounts—raised $121 million in assets in 2008, and an additional $170 million from January to September 2009. Weiss and WE2 are two of what Rydex|SGI AdvisorBenchmarking terms "best practices"—those with AUM in excess of $155 million in 2008, a top-line growth rate higher than 20%, profits in excess of $300,000, and a practice that offered at least four services (two of which were investment management and financial planning).

How did these practices flourish during a cantankerous, to put it mildly, 2008? By using best practices in three areas: operations, client services, and marketing. We believe that 2008 is an extreme example of what types of activities and behaviors separate the best advisory firms from the rest. When the markets are stabilizing, as they are now, it's the perfect opportunity to create a plan for all environments. Advisors who take the time now to prepare and who follow these best business practices will be able to secure their businesses before other storms strike—and position themselves to succeed in any market.

When it comes to managing expenses, best practices do a better job than average advisory firms—and they reinvest more in their practices. A case in point is c5 Wealth Management in Great Falls, Virginia. Paul Bennett, managing partner at the firm, says c5 recently renegotiated its lease back to 2004 levels. "On the pension side," he says, "we have also decreased our expenses by 50% by purchasing a third party administrator in January 2008." PCL Administrators, Inc.—a wholly owned subsidiary of c5 Wealth Management that provides TPA services to retirement plans, primarily profit sharing plans and 401(k)s—"provides each client with the appropriate plan documents, processes the necessary IRS filings, performs cross-testing and manages compliance services," Bennett says. This purchase has enabled c5 to market to a "closed audience," he says, and has helped the firm operate more efficiently.

In order to broaden their income stream and increase their referrals, best practices offer a broad range of wealth-management services. Susanna Joiner, president of WE2, says that her firm does not focus on one manager or on one strategy. Rather, WE2 offers a "repertoire of strategies" to its clients, which enables clients to adjust according to what is going on in the economy as well as to what is occurring in their personal situations. Advisors looking to broaden their services might want to consider branching out into executive compensation advisory, retirement planning, and estate planning services.


THE BEST FIRMS HAVE FEWER CLIENTS/PRINCIPAL
NUMBER OF CLIENTS PER PRINCIPAL (2003-2008)
138
105
141
105
157
105
168
122
178
146
152
126
2003
2004
2005
2006
2007
2008
AVERAGE
TOP
Source: Rydex | SGI AdvisorBenchmarking


THE BEST FIRMS COMMUNICATE MORE, AND IN MORE WAYS, WITH CLIENTS
COMMUNICATION METHODS WITH CLIENTS
Email
91%
84%
Newsletters
81%
62%
Annual client reviews
87%
48%
Quarterly one-on-one meetings
51%
48%

Successful advisory firms have business partnerships in place that enable them to offer a more robust set of services and bring added value to clients without having to hire additional staff or invest in additional training and education. Buffalo-based Courier Capital Corp.

, a provider of customized investment management and consulting services for institutional clients and affluent individuals, has an agreement in place with a local accounting firm, says Thomas Hanlon, a partner at the firm who is director of retirement plans and a senior portfolio manager.

By focusing on their core competencies and entering into partnerships with professionals who are experts in other areas, best practices are able to run a more efficient operation, deliver more services to clients, and free up staff time to spend on the most profitable area of their business: spending time with clients.

In addition to fostering business partnerships, top firms take other measures to increase operational efficiency and maximize staff productivity. Hanlon says that Courier Capital consolidated its custodians during the downturn in order to increase staff productivity. It also initiated a statement production system that allowed for consolidation and rebalancing—the system made it easier for staff to get key information for clients and provided a value-add for clients. And because of the new operational efficiency, Hanlon adds, the firm was able to reduce its account minimum.

While staff productivity is important, the best practices view staff development as equally crucial. Bennett of c5 is proud of the fact that all of his firm’s employees are highly credentialed. "There are two things we don’t skimp on: technology and personnel," he says. His firm pays for employees’ advanced degrees and certifications. In the past few years, one employee at his firm completed her CFP certification, another earned his CRPS designation, and another is pursuing his CFA designation.

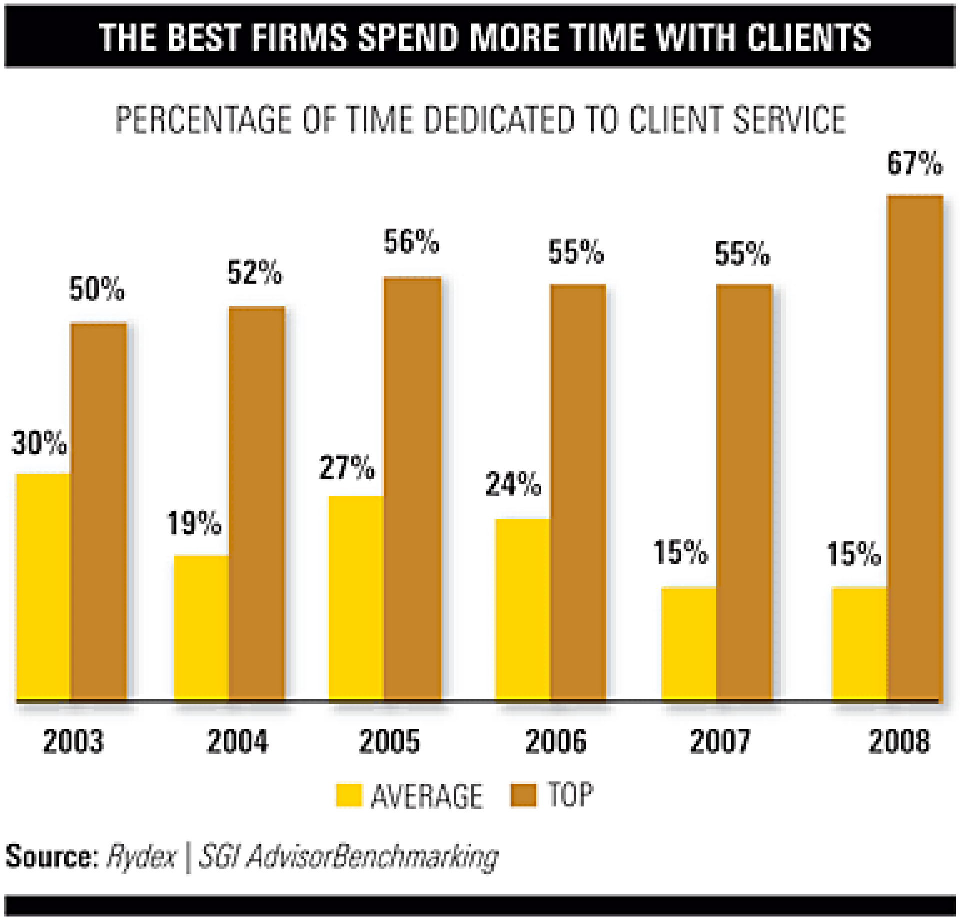
Best Practices in Client Service:

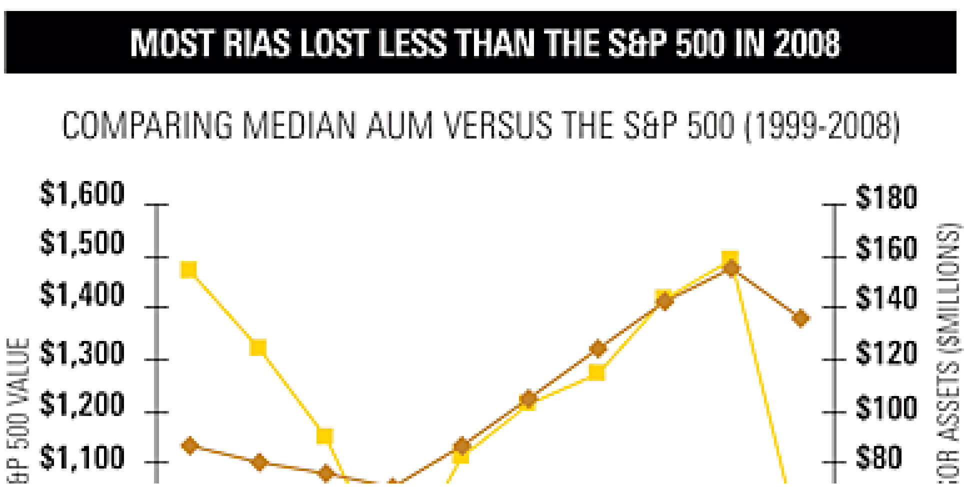
Putting clients first and keeping them there

Top advisory firms make client communications a priority during all business environments, and when times get tough, they ratchet up their client communications—and their client services—even more. Staying in front of clients, educating them, and communicating with them are three priorities for WE2, Joiner says. Her firm has 12 to 18 points of touch with its clients. In 2008, WE2 emphasized proactive communications even more than in previous years. The firm held town hall meetings about what was going on in the marketplace, which, according to Joiner, resulted in many new clients. The firm's additional communications include newsletters, e-mails, birthday and anniversary cards to clients, and a client appreciation event. "You've got to show compassion, show you care," Joiner says. Courier Capital also beefed up client communications in 2008, delving into social networks such as Twitter, Facebook, and LinkedIn and started a blog. One LinkedIn communication resulted in 500 reads, Hanlon says.

In the 2009 AdvisorBenchmarking survey, we found that 91% of best practices used e-mail in 2008 (versus 84% of average firms); 81% used newsletters (versus 62% of average firms); and 87% held annual client reviews (versus 48% of average firms). Communicating with clients during the downturn was "tough sledding," says c5's Bennett, but it's been crucial.

Best practices not only excel at client communications—they also make client service a priority in every level of the firm and they spend more time with clients than average practices do. It pays off in spades—advisors who spend more than 60% of their time with clients are eight times more profitable than those who spend less than 30% of their time with clients.


THE BEST FIRMS SPEND MORE TIME WITH CLIENTS
PERCENTAGE OF TIME DEDICATED TO CLIENT SERVICE
30%
50%
19%
52%
27%
56%
24%
55%
15%
55%
15%
67%
2003
2004
2005
2006
2007
2008
AVERAGE
TOP
Source: Rydex | SGI AdvisorBenchmarking


MOST RIAS LOST LESS THAN THE S&P 500 IN 2008
COMPARING MEDIAN AUM VERSUS THE S&P 500 (1999-2008)
$1,600
$1,500
$1,400
$1,300
$1,200
$1,100
$180
$160
$140
$120
$100
$80

The most successful advisory firms have always had more client service and support staff than other practices typically do, enabling top firms to have fewer clients per principal—which translates to more face time with clients. Additionally, our research has found that the most successful advisors make time management an important part of their business practices. Principals of best practices spend 41 to 50 hours a week working with clients (of average firms, none spend that much time with clients). Chapman says that the principals of his firm spend a combined 40 to 45 hours per week directly with clients through client calls or meetings as well as performing analyses of client portfolios. During the downturn, Joiner says her firm cut down a bit on travel, and although they spent less time with clients in person, web events enabled them to still stay close to clients—as well as raise assets.

Weiss Capital Management also believes in staying close to its clients, even though clients are spread across the country. The firm has three touchpoints for service: financial advisors, who strategize with clients; a client service team that handles routine administrative issues; and portfolio managers. Though the firm has a national reach, "we're small enough for clients to access us," Daniels says.

In short, just as highly effective people follow Dr. Stephen Covey's "put first things first" mantra, highly effective advisory practices put clients first. And, like Covey, they put plans in place to ensure that they're accomplishing what's most important to them—and to their practices.

Best Practices in Marketing:
Expanding the firm's reach in all markets

In the 10 years that Rydex|SGI has been conducting the RIA survey, we've notice another clear trend. From 2003 to 2007, RIAs experienced steady increases in assets, clients, revenues, and employees. Moreover, while business-building was a focus for many practices during those years, client retention was a top priority for many practices in 2008 due to the economic downturn. While some advisory firms retrenched last year, best practices did more than retain clients—they proactively generated clients in 2008.

How did they do it? For best practices, 44% of new clients are generated through solicited referrals versus only 16% for average firms. In short, top firms make referrals an objective in their marketing and client service efforts. Courier Capital's Hanlon says that about 50% of his firm's new clients come from referrals. "Word of mouth has always been big for us," he says. Likewise, WE2 makes referrals a priority. Joiner says that one of WE2's core competencies is to carve out some business to third-party money managers so they can increase assets and get referrals.

Like other best practices, Weiss heavily utilizes marketing to generate new clients. For the last eight or nine years, the firm has put a tremendous amount of energy toward marketing, Chapman says. Once a print-oriented firm, Weiss is now exclusively electronic with its clients and prospects, Chapman says. To attract new clients, the firm sends out a free weekly electronic newsletter that includes commentary on market conditions, economic forecasts, and solutions the firm offers. Weiss also conducts interview-format Webinars that its clients and prospects can listen to live or replay at a time that fits their schedules. Unlike many advisory firms, which have a geographic client base, Weiss' clients are located nationally, so the firm needs to be creative in reaching and bonding with clients. "We've got to find better and unique ways to get our message out there and to educate our clients," Daniels says.

Joiner says that marketing is one of her firm's biggest expenses and is the key to growth. Daniels and Chapman echo the importance of marketing. Their electronic newsletter has grown its readership base to 37,000. They have also reached thousands of viewers with their Webinars—and have seen a growth in assets tied to these events.

Courier Capital has been concentrating both its traditional marketing efforts and its social media efforts on building its brand for our retirement plan services group. The firm has also teamed up with leading accountants and law firms in its area in providing educational seminars for plan sponsors and trustees on issues in the retirement plan area such as fiduciary responsibility, Hanlon says. "These efforts have benefited our retirement plan services group, and our firm in general, by greatly expanding the awareness of our company and our capabilities in ways that we could not achieve in the past. As a result of this, we are being asked to come in and review and bid on retirement plans much more frequently," than previously was the case, Hanlon says.

It's during the challenging times that we've seen the most drastic difference between the best firms and average firms. We believe that advisors looking to grow their practices and boost profitability should follow the lead of AdvisorBenchmarking's best practices—they need to plan for upcoming storms now, when markets are beginning to stabilize, rather than when the storm hits. By developing a plan to withstand all market environments and by adopting these time-tested operations, client services, and marketing strategies, advisors will be poised to grow and increase their profitability in all market environments.

Maya Ivanova is senior market research manager for Rydex|SGI AdvisorBenchmarking, which provides RIAs with critical intelligence and insight on practice management.
E-mail her at **mivanova@advisorbenchmarking.com.** Results are from the 2009 online AdvisorBenchmarking survey of more than 500 advisory firms.