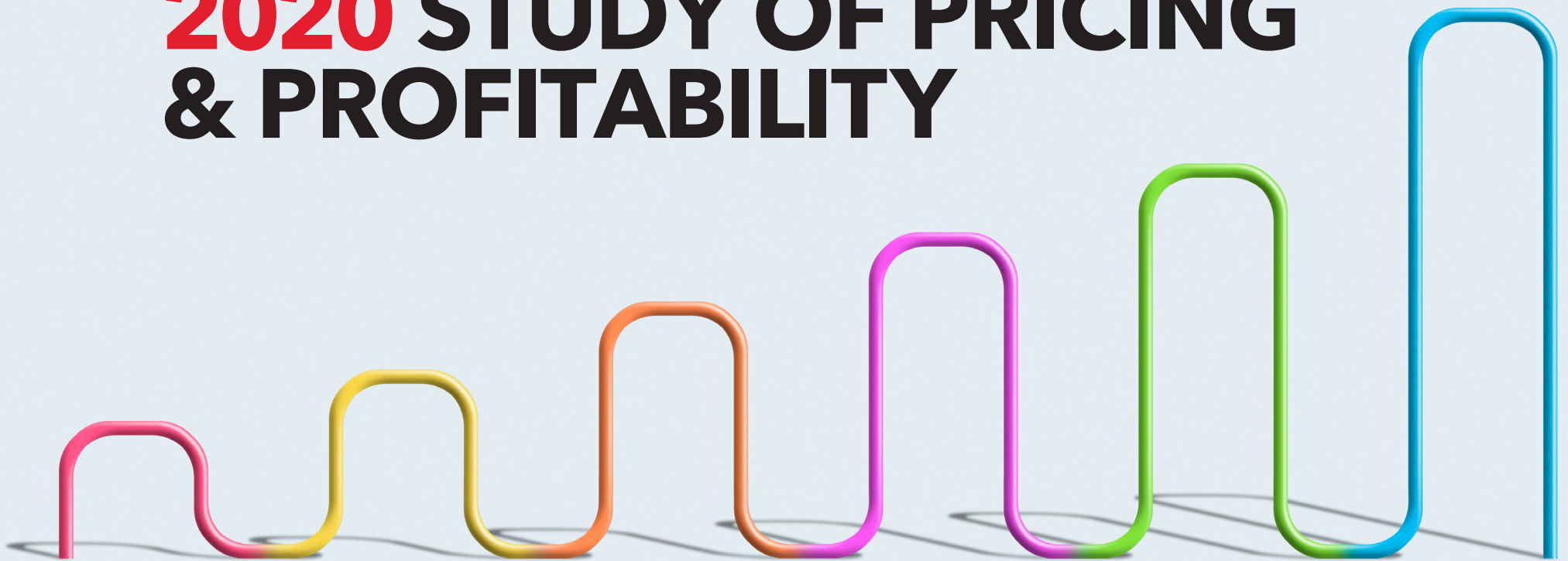


2020 STUDY OF PRICING & PROFITABILITY



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A YEAR OF CHALLENGES BUT NEW BEST PRACTICES WILL CONTINUE TO SHAPE THE INDUSTRY...

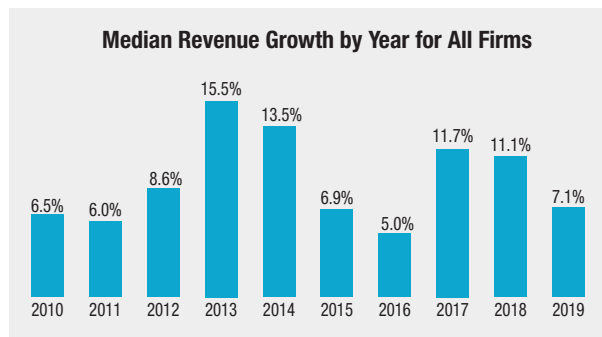
The financial advisory industry is facing new challenges as the COVID-19 pandemic continues to disrupt the lives of clients and team members and bring devastation to communities, families and businesses. We can be thankful that despite the current environment, financial markets have remained at relatively high levels, and most firms in this year's Pricing & Profitability Study reported assets under management nearly identical to January 2020 levels.

Still, the crisis has challenged advisory firms to do things differently. Advisory professionals and support staff are working and servicing clients differently. Firms are managing themselves differently and looking differently at their business goals.

This study includes a set of statistics relating to the year 2019, which may now seem a distant memory. However, the pricing and profitability trends identified in the study continue to shape the industry. As independent advisers continue to navigate their post-COVID-19 world, the best management practices discussed are still very applicable to firms looking to grow and reach new levels of success.

GROWTH AND PROFIT SLIDE...

As markets grew over the course of 2019, advisory firms experienced very strong growth in assets, though actual revenue growth was more modest. While assets grew at a median rate of 18.2%, median revenue growth in 2019 was only 7.1%. All the same, firms ended a very successful decade with a 10th straight year of growth.

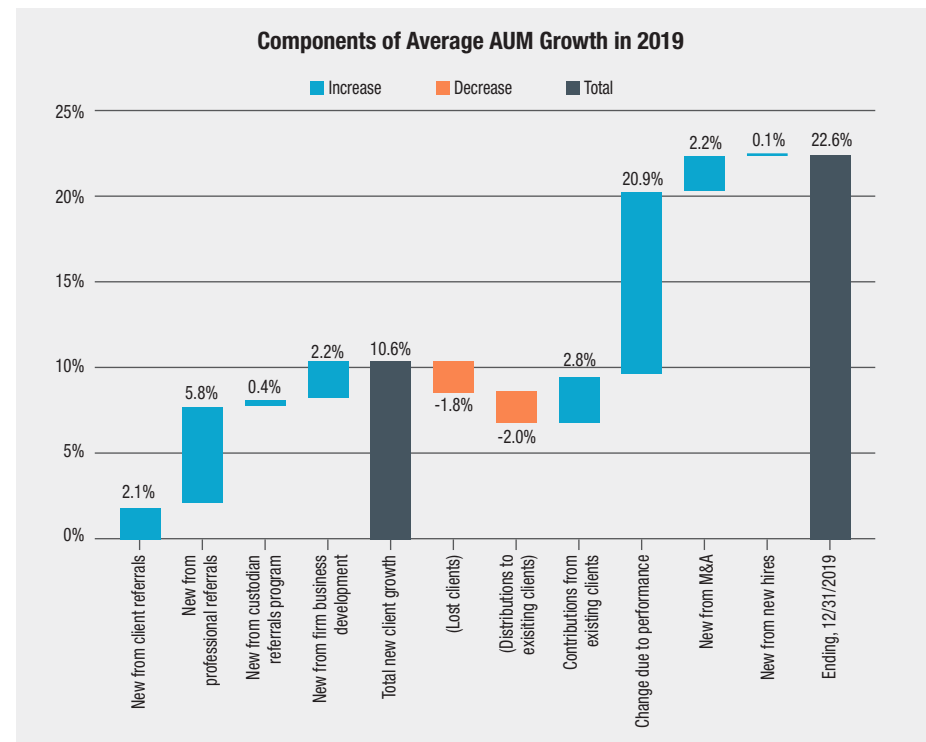


This continuous growth over the past decade has gradually produced ever higher levels of income for advisory firm owners. Yet while owner income has steadily increased over time, the economic equation defining the industry has remained remarkably

steady since the Great Recession. Since 2010, profitability has remained within a tight and constrained band between 24% and 25%. Despite some productivity growth resulting from the average size of client relationships growing, profit margins dropped to 22.8% of revenue in 2019.

RELIANCE ON INORGANIC GROWTH...

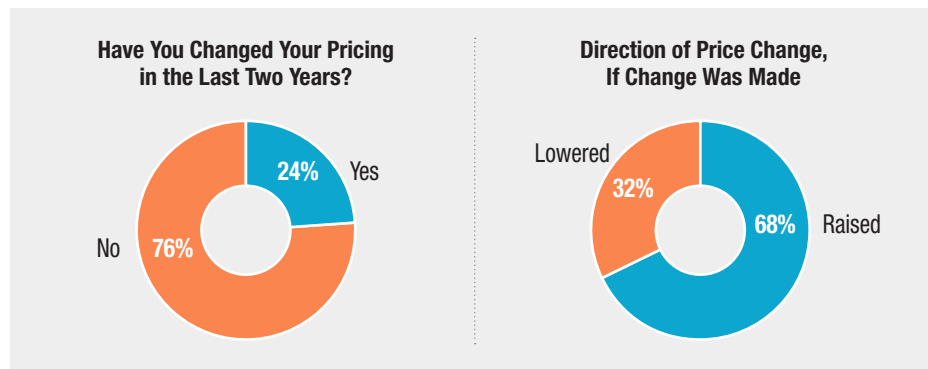
Much of advisory AUM growth in 2019 came from the markets. The remaining components of growth mirror the experience of prior years. Professional referrals were the largest source of growth in assets under management for firms outside of market performance, accounting for more than half of total new client growth. Combined, referrals from clients, professionals and custodians along with firm business development created AUM growth totaling 10.6% in 2019.



In addition to relying on the markets for growth, firms also still have the weakness of depending on their founders for new clients. Overall, a majority of new clients come to the typical firm based on the efforts of the founders. Marketing is playing an increasing but still minor role, as are dedicated business developers.

PRICING HOLDS STEADY...

Pricing has received a lot of attention in the industry, with the anticipation of pricing pressure from increased competition. Still, less than a quarter of survey respondents (24%) have changed pricing over the last two years while the rest have kept their fee schedules the same. Of the firms that have changed their pricing schedules, 68% increased their fees while only 32% lowered them. In other words, less than 8% of firms have lowered their fees in the last two years.



Survey results indicate that firms may be applying their competitive behavior and competitive pricing mostly toward the clients they wish they had rather than the clients they actually service. Yet, the ability to attract and service larger clients appears to be directly related to firm size. There is no doubt that as the industry continues to grow, firms are growing larger and more capable. How the industry defines what it provides clients also continues to evolve, and firms have ample opportunity to improve both their services and management practices. We hope the best practices identified in this study can assist firms of every size in growing faster, achieving higher profitability, taking good care of their teams and better servicing their clients.

HOW WELL DO YOU PERFORM COMPARED TO YOUR PEERS?

The InvestmentNews Pricing & Profitability Study, part of the longest-running benchmarking program of the independent advice industry, breaks out these trends in detail and highlights differences that emerge along four key stages of a firm's evolution:

Solo Practices	Ensembles	Enterprise Ensembles	Super Ensembles
consisting of one adviser and support staff	that have brought together multiple professionals but generate less than \$5 million in annual revenue	with between \$5 and \$10 million in annual revenue	with more than \$10 million in annual revenue

Benchmark yourself against similar firms in the following areas:

- PRICING:** How firms set pricing tiers, bundle services and position their businesses
- PROFIT:** How firms generate revenue, allocate expenses and manage the bottom line
- BUSINESS DEVELOPMENT:** How firms target, find and convert prospects into new clients

Plus more insights from data covering:



To purchase the full study, visit investmentnews.com/benchmarking

FOREWORD

INVESTMENTNEWS 2020 PRICING & PROFITABILITY STUDY

We are proud to present the InvestmentNews 2020 Pricing & Profitability Study, our annual benchmarking study of the advisory industry, which has a legacy stretching back nearly three decades. Like its predecessors, the latest release offers a comprehensive view of how independent advisory firms ran their businesses in 2019, from strategy and pricing, to marketing and sales, to client offerings and engagement.

This study would not be possible without the participation of more than 300 independent firms of all sizes and affiliations, whose 2019 business data drives both our trend assessments and the rich benchmarking data in the study's appendix. These firms took time to complete their surveys in the midst of the coronavirus epidemic, when their families, businesses and clients – like all of ours – were facing unprecedented challenges. The steadfastness of these firms reinforces Pershing's belief that the independent advisory industry will continue to adapt, grow and thrive in the years ahead.

Here are a few highlights from the 2020 study:

- **Productivity peaks** – Productivity as measured by revenue per professional is the highest it's been in a decade. The cyclical nature of this metric makes this phenomenon even more significant, since we'd expect it to revert as firms grow in size.
- **Even keel for pricing schedules.** Most firms surveyed have kept their pricing schedules the same for the past two years. What's more, among those that have adjusted pricing, 68% have raised their fees. This might seem inconsistent with an era marked by heightened competition from retail giants and “race-to-zero” pricing pitches. However, the study provides a good explanation of this dynamic in light of the differences in client assets and associated fees.
- **Size matters.** The study found that as firm size (measured by revenue) rises, so does average per-client revenue. This correlates with a larger average client size as firms grow, as larger client relationships drive a higher average revenue per client.

The 2020 study offers many more insights like these plus plenty of real-world data from your peers that will help you benchmark and fine-tune your strategies. We hope that this kind of straightforward information, combined with the commitment and resiliency of your teams, will see you through these difficult times to emerge stronger and poised for even greater business success.

Christina Townsend

Head of Relationship Management, Business Consulting
and Platform Strategy, Advisor Solutions,
BNY Mellon's Pershing

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InvestmentNews

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InvestmentNews is the premier provider of news, data, research and events to the financial advisory industry. Through our weekly newspaper, website, data centers, benchmarking reports, conferences and events, we provide industry-leading tools and resources that allow financial advisers to learn more about their businesses, clients and competition.

IN Research

ABOUT INVESTMENTNEWS RESEARCH

This report, along with similar in-depth reports on Compensation & Staffing and Pricing & Profitability, are the work of InvestmentNews Research, which provides financial advisers with the industry's most informative practice management studies and benchmarking reports. The reports are a prime source of market intelligence for advisory firms and industry partners, including custodians, broker-dealers, service providers and professional organizations.

For more information about InvestmentNews Research and its custom research solutions, please contact Devin McGinley at 646-437-7960 and dmcginley@investmentnews.com.

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The Ensemble Practice LLC is the premier business consulting firm for the financial advisory industry. It is committed to helping independent financial advisers create multi-professional ensemble firms with strong organic growth and sustainable profitability. The Ensemble Practice works with the top wealth management firms in the country. The firm also hosts the "G2 Leadership Institute"—a training program for the future leaders of advisory firms. The firm is founded and led by Philip Palaveev, a highly regarded industry expert, thought leader and author of the book "The Ensemble Practice."

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