

2019 RIA Benchmarking Study

July 2019

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Schwab's RIA Benchmarking Study is the leading study in the industry – 1,310 advisory firms, representing \$1.1 trillion in AUM, participated this year.

The following report is organized on the basis of Schwab's Guiding Principles for Advisory Firm Success, a framework to help advisors address the complexities of growing their firms and creating enduring businesses.

Key findings:

- Firms' top business priorities are acquiring new clients, leveraging technology to improve productivity, and enhancing strategic planning and execution.
- The fastest-growing firms (the top 20% of firms ranked by organic growth) saw a 9.3% increase in clients and AUM growth of 6.5%.
- New clients drove more than five times the new assets compared with net assets from existing clients.
- Firms are actively seeking talent, with 71% of firms bringing on staff last year. Forty-two percent of firms recruited from other RIAs.
- Seventy-one percent of firms share equity with non-founders – the primary reason cited for sharing equity is to retain key talent.
- Options for equity financing have expanded recently, with firms using banks, internal financing, outside investors, and more. Among firms that offer equity to employees, most often employees finance the equity purchases.

GUIDING PRINCIPLES FOR ADVISORY FIRM SUCCESS



Effective planning and execution is a leading indicator of success



Value is defined through your clients' eyes



Operational excellence creates greater capacity for clients



Your reputation is your brand



People are your most important asset



Effective planning and execution is a leading indicator of success

Growing your firm requires focus, strategic planning, and an innovative mindset. Establishing a shared vision for the future, creating alignment, and driving effective execution power your growth engine and provide a clear understanding of the future and how you'll get there.



Value is defined through your clients' eyes

Firms thrive when focusing on the client experience from their clients' point of view. When every person, process, service offering and system maintains an extreme focus on your ideal client, you are able to differentiate your firm in an increasingly competitive landscape.



Operational excellence creates greater capacity for clients

Institutionalizing your business through technology and operations provides operational discipline, allowing you to maximize scalability, manage risk, and build a solid infrastructure so that you can reinvest time where it matters most—with your clients protecting the trust that you have built.



Your reputation is your brand

Every aspect of your firm—employees, centers of influence, clients and even your digital presence—should effectively amplify your firm's reputation within the community you serve in a way that increases referrals and generates new business.



People are your most important asset

Creating a cycle of opportunity to attract and retain top talent helps ensure continuity of your firm's people, culture, and values as you prepare for the future. That's why having a high-performing and diverse team, unlocking their potential, and rewarding and developing the next generation of leadership is a long-term commitment and critical to building a legacy.



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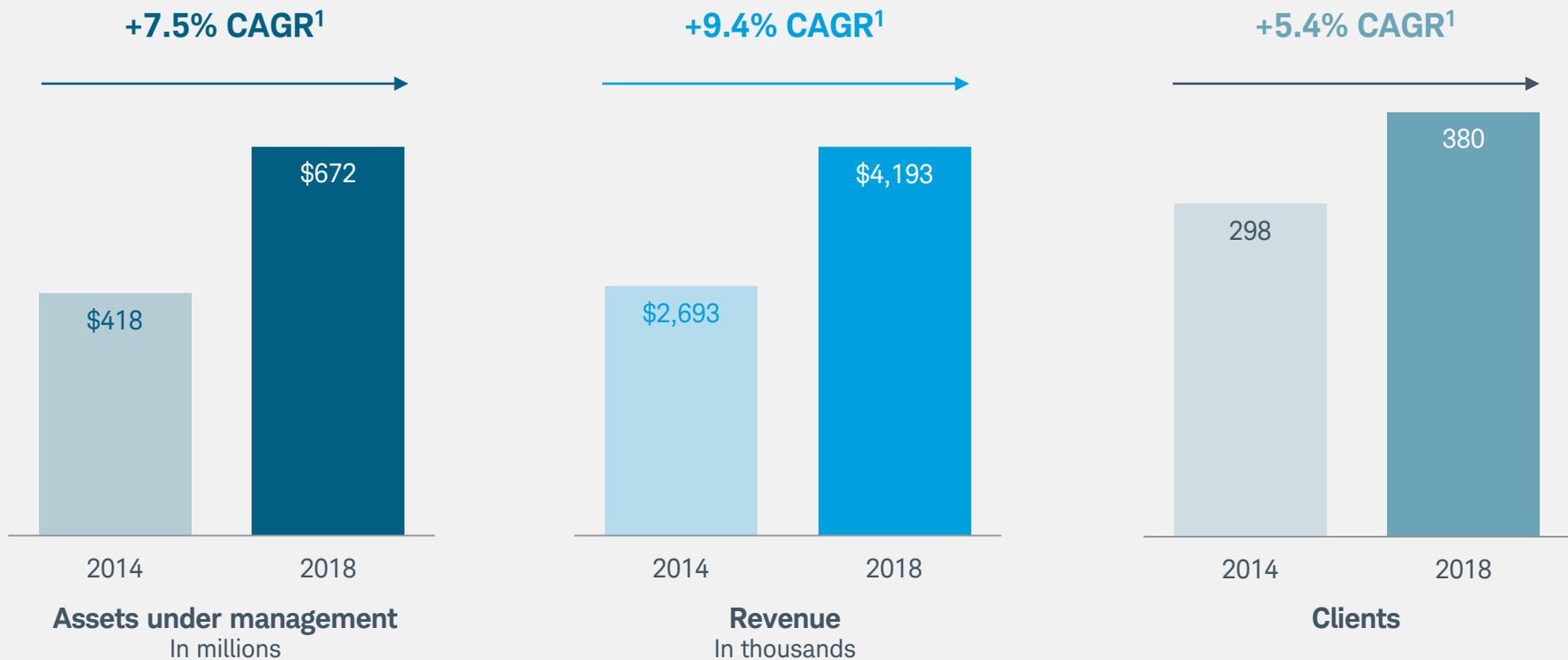


Acquiring new clients consistently ranks at the top of advisors' strategic initiatives, followed by enhancing business operations.

- 1 Acquire new clients through client referrals
- 2 Acquire new clients through business referrals
- 3 Improve productivity with new technology
- 4 Enhance strategic planning and execution
- 5 Recruit staff to increase firm's skill set/capacity
- 6 Improve satisfaction for existing clients
- 7 Improve productivity using process changes
- 8 Bring on principal with existing book of business
- 9 Develop or enhance a succession plan

Results for all firms with \$250 million or more in AUM. 2019 RIA Benchmarking Study from Charles Schwab, fielded January to March 2019. Study contains self-reported data from 1,310 firms. Participant firms represent various sizes and business models categorized into 12 peer groups—7 wealth manager groups and 5 money manager groups—by AUM size.

Firms saw strong five-year growth in assets, revenues, and clients.



¹ Median compound annual growth rate (CAGR) over the five-year period from 2014 to 2018 for all firms with \$250 million or more in AUM.

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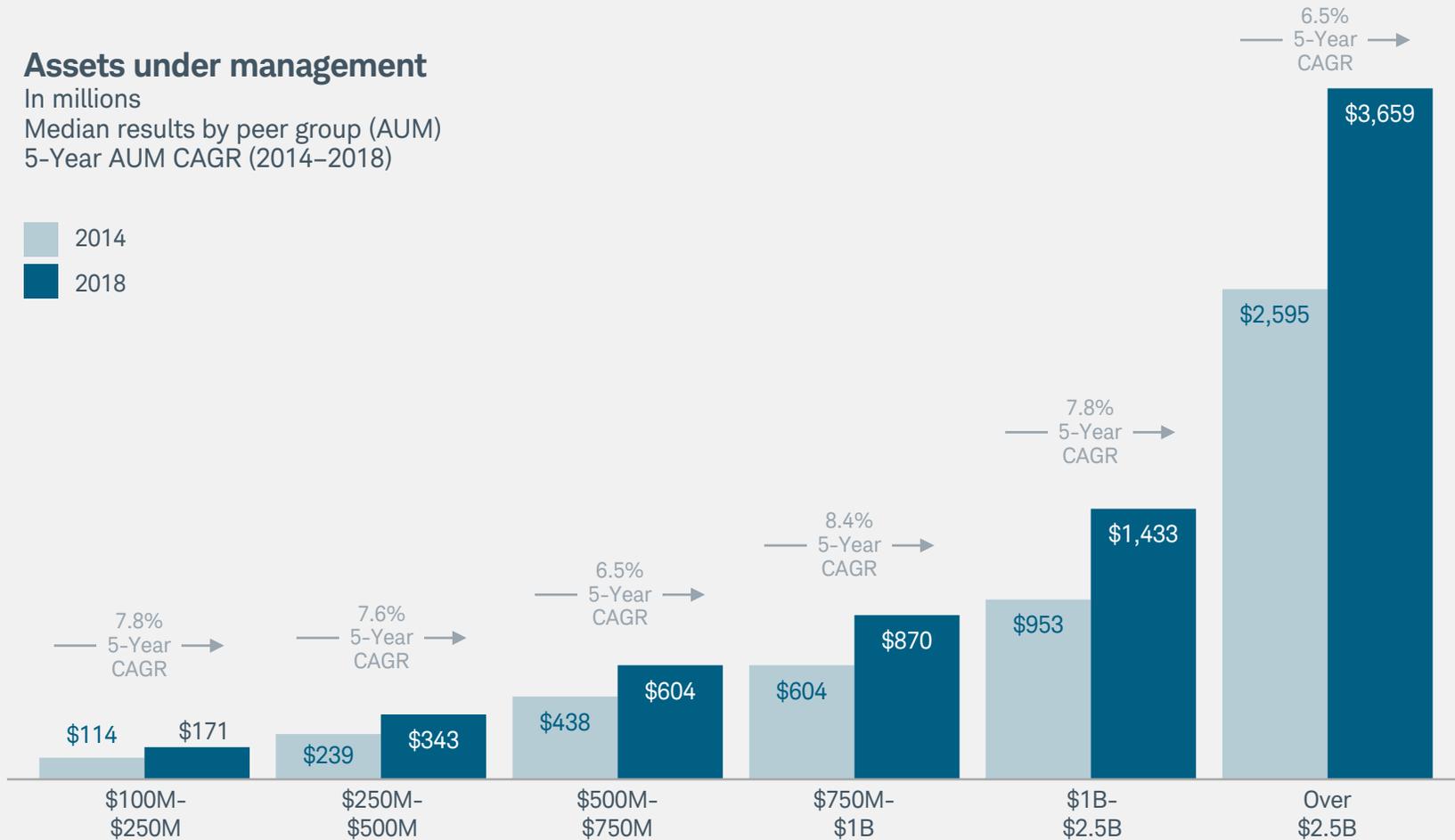
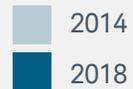
Firms of all sizes grow AUM over five-year period.

Assets under management

In millions

Median results by peer group (AUM)

5-Year AUM CAGR (2014–2018)



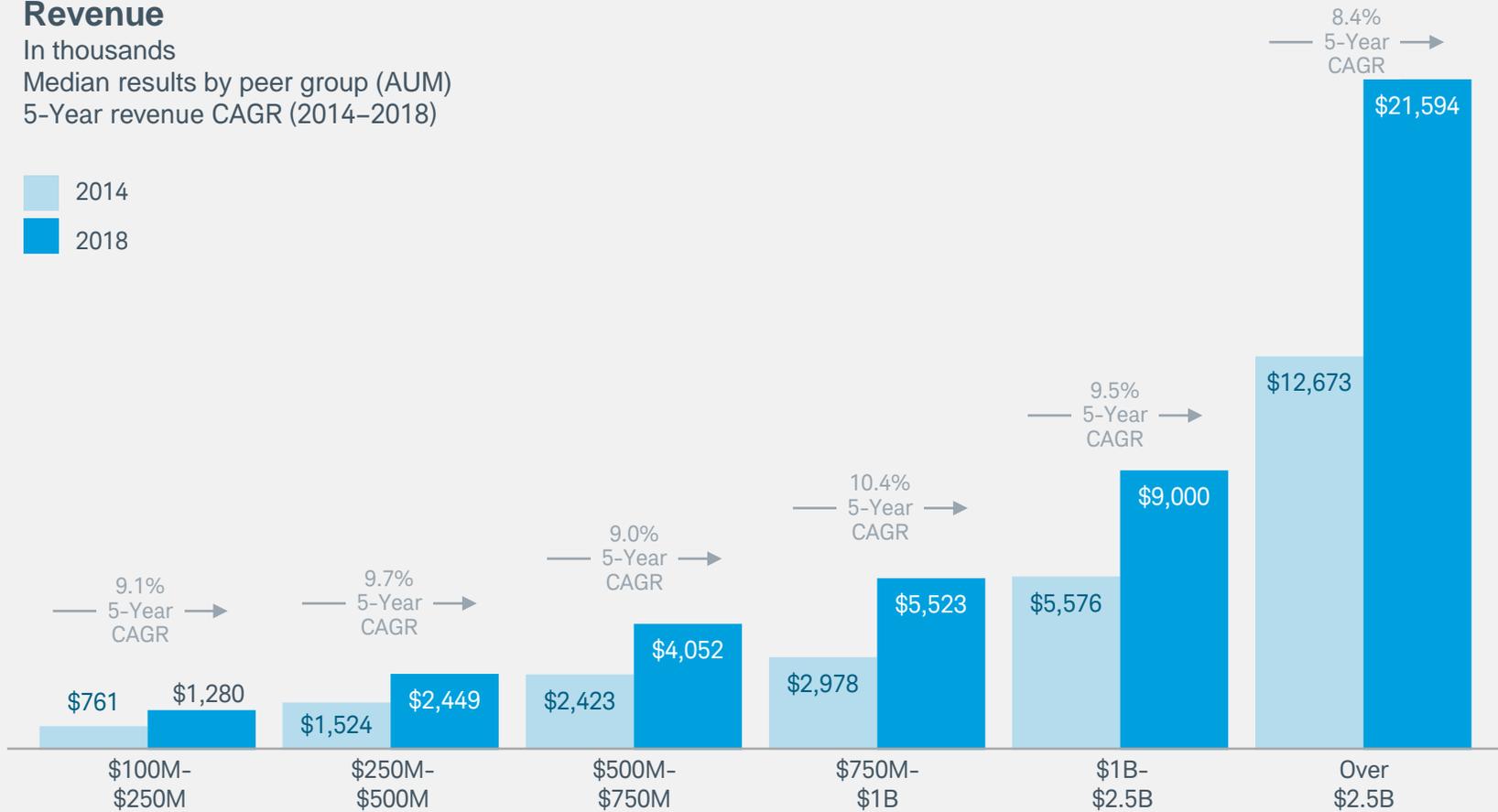
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Revenues increased in 2018, supporting strong five-year compound annual growth rate.

Revenue

In thousands
 Median results by peer group (AUM)
 5-Year revenue CAGR (2014–2018)

2014
 2018

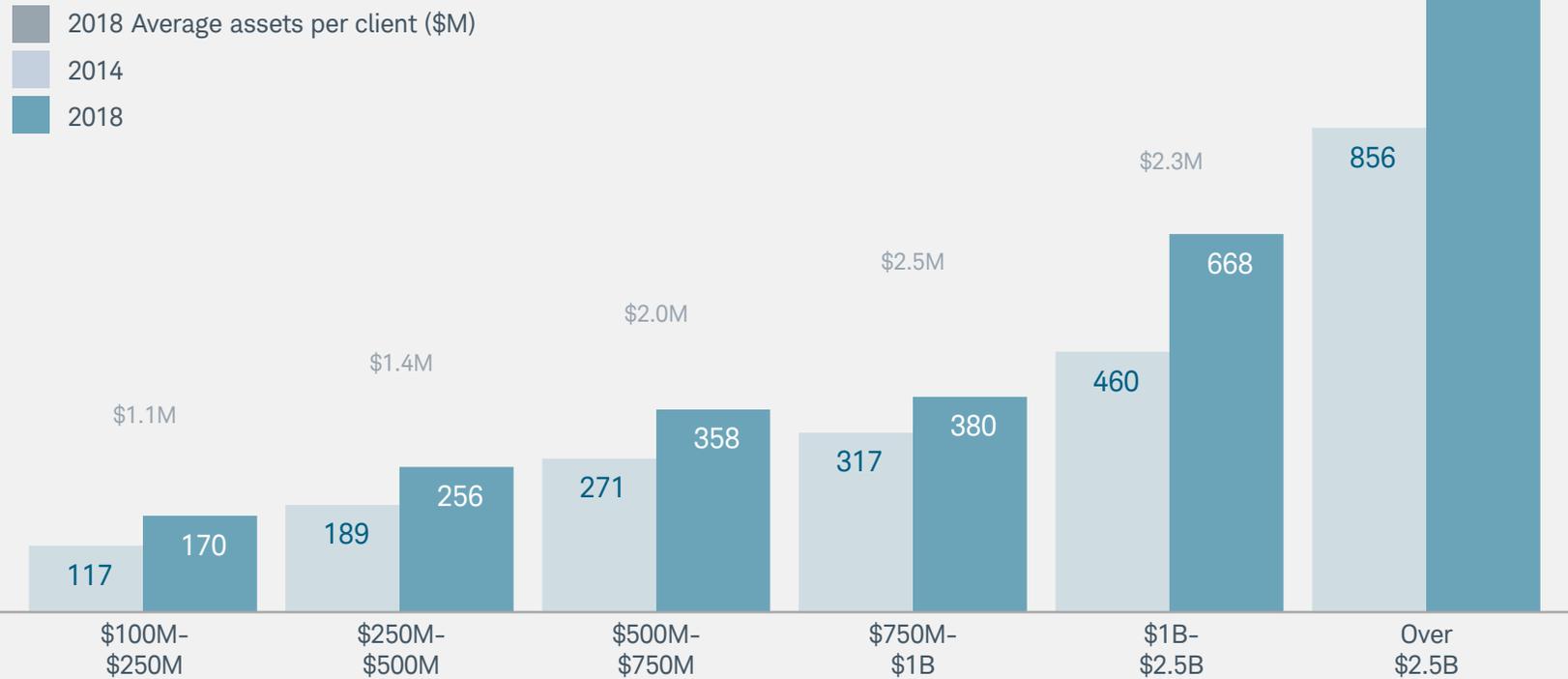


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Independent advice appeals to high-net-worth clients.

Total clients

Median results by peer group (AUM)



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Firms are also pursuing inorganic means to bolster growth.

In 2018

13%
of firms

acquired clients
by bringing on an
advisor with a book
of business

In 2018

4%
of firms

acquired new
clients via M&A

Over the past five years

18%
of firms

engaged in
acquisitions

Results for all firms with \$250 million or more in AUM.

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Firms can start planning for the future by identifying next-generation leaders.

92% of firms are considering internal succession

62% of firms continue to primarily be led by founders

38% of firms have a documented path to partnership

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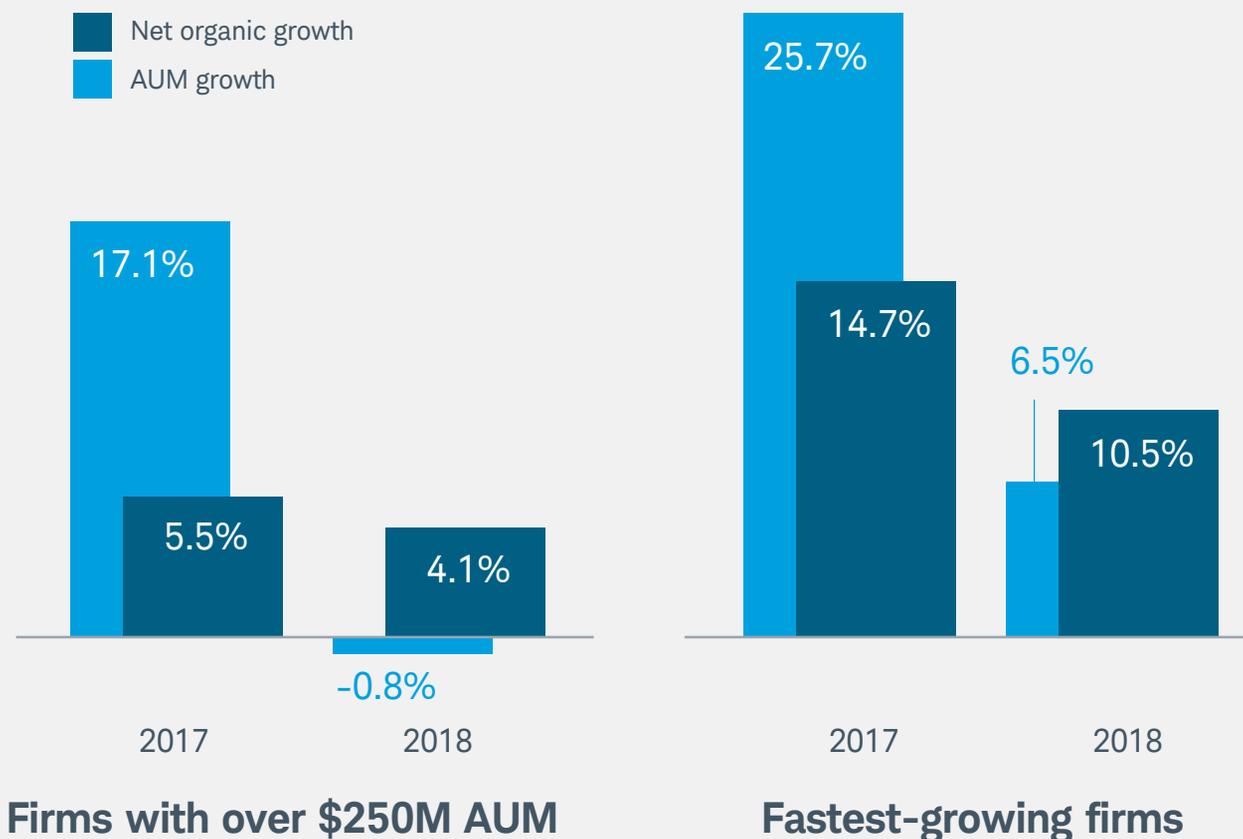
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Net organic growth sustains business performance, especially with volatile markets.

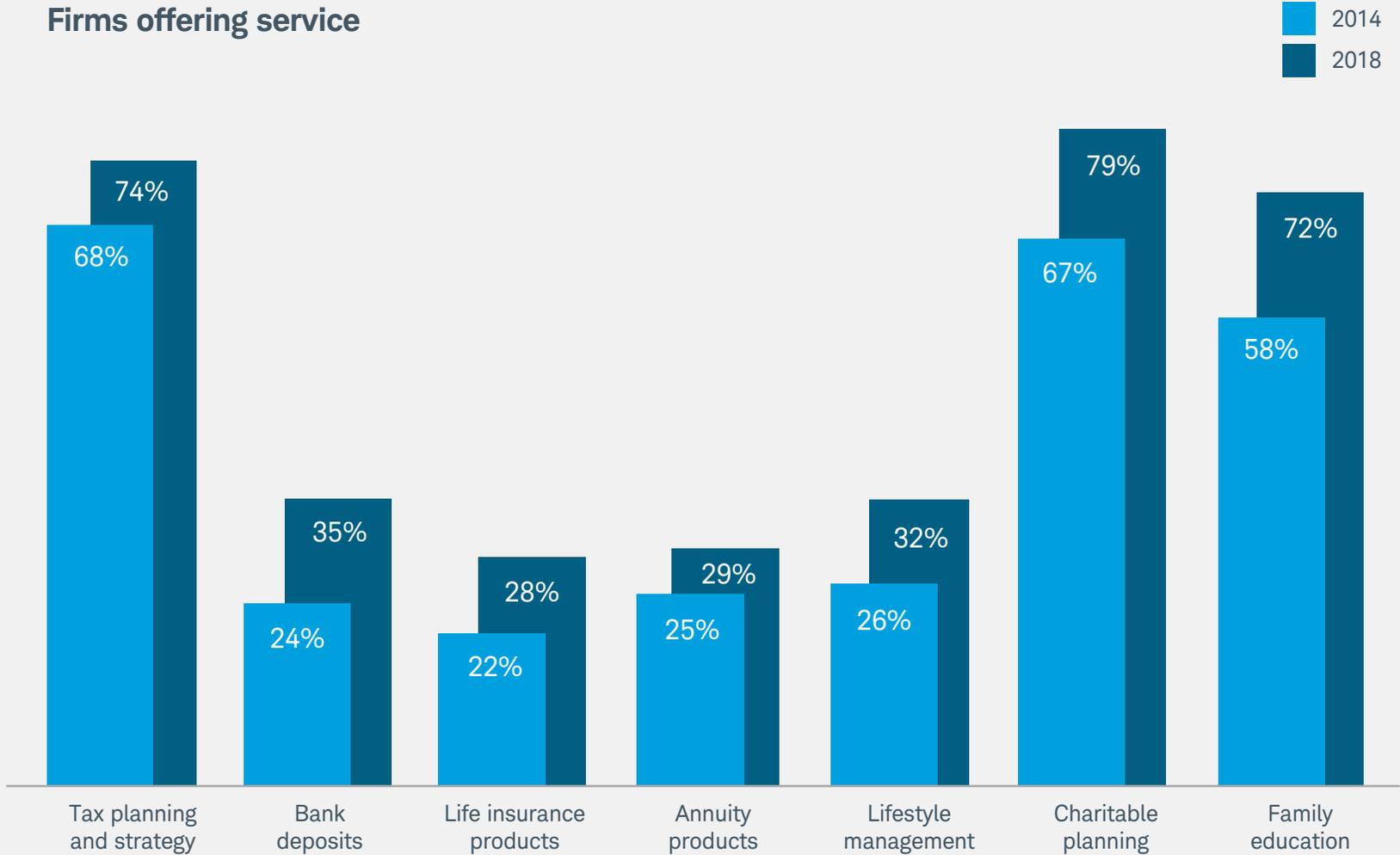
Contribution of net organic growth to AUM growth



Median results for all firms with \$250 million or more in AUM. Fastest-growing firms are the top 20% of firms with \$250 million or more in AUM based on five-year net organic CAGR. Net organic growth is the change in assets from existing clients, new clients, and assets lost to client attrition.

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Firms are increasingly offering value-added services to address client needs and differentiate themselves in the marketplace.



Results from the 2015 and 2019 RIA Benchmarking Study from Charles Schwab. Results for all firms with \$250 million or more in AUM.

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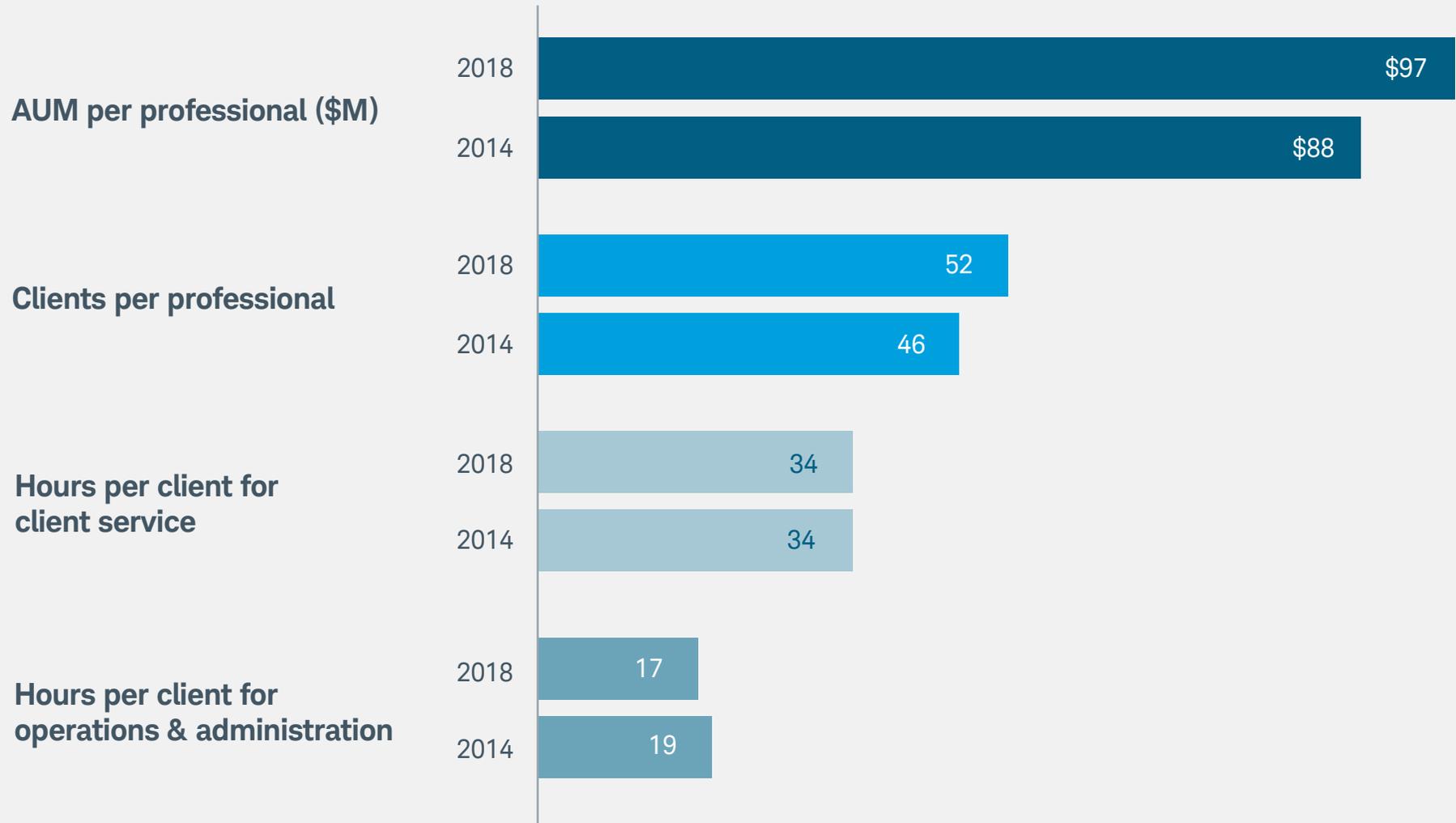


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Firms have maintained client service levels while increasing productivity.

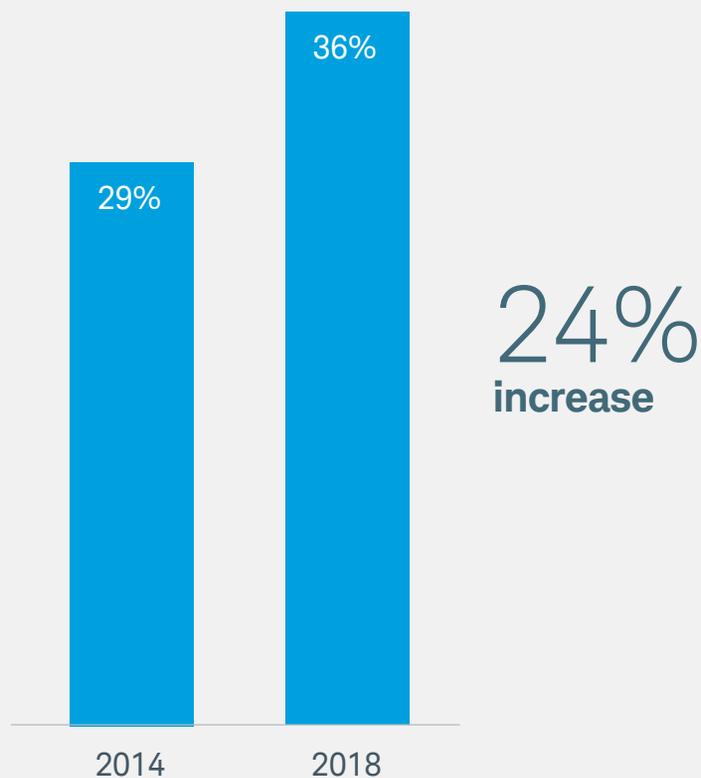


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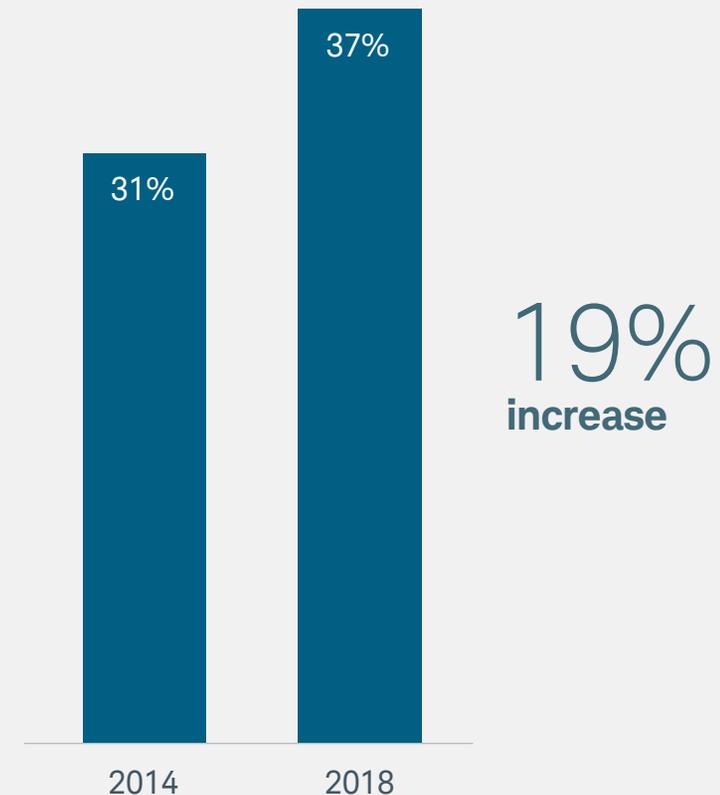
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Firms are increasingly taking advantage of efficiencies in CRM systems to help serve clients more consistently.

Three or more data sources or systems integrated with CRM
% of firms



Standardized workflows within CRM for over 50% of tasks
% of firms

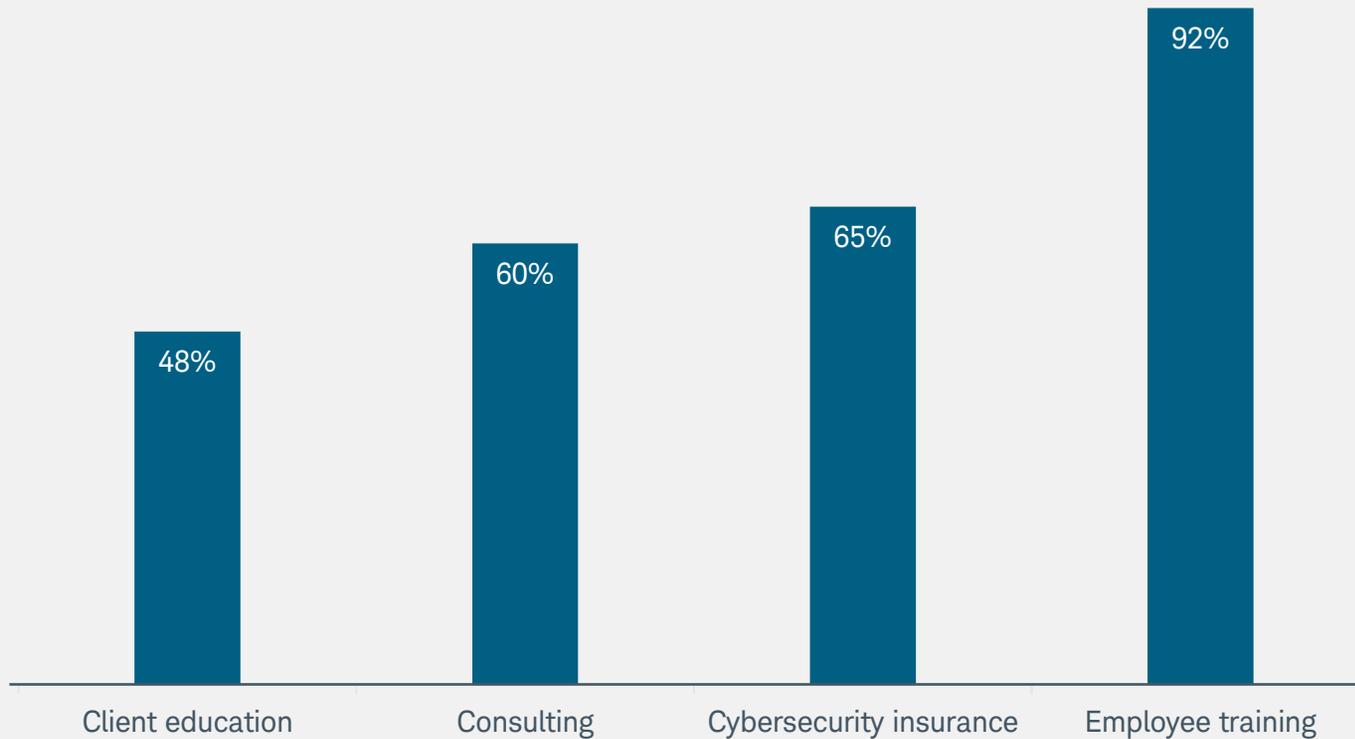


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Advisors are taking key steps to enhance their cybersecurity programs, protecting their clients and firms.

Firms pursuing cybersecurity activities

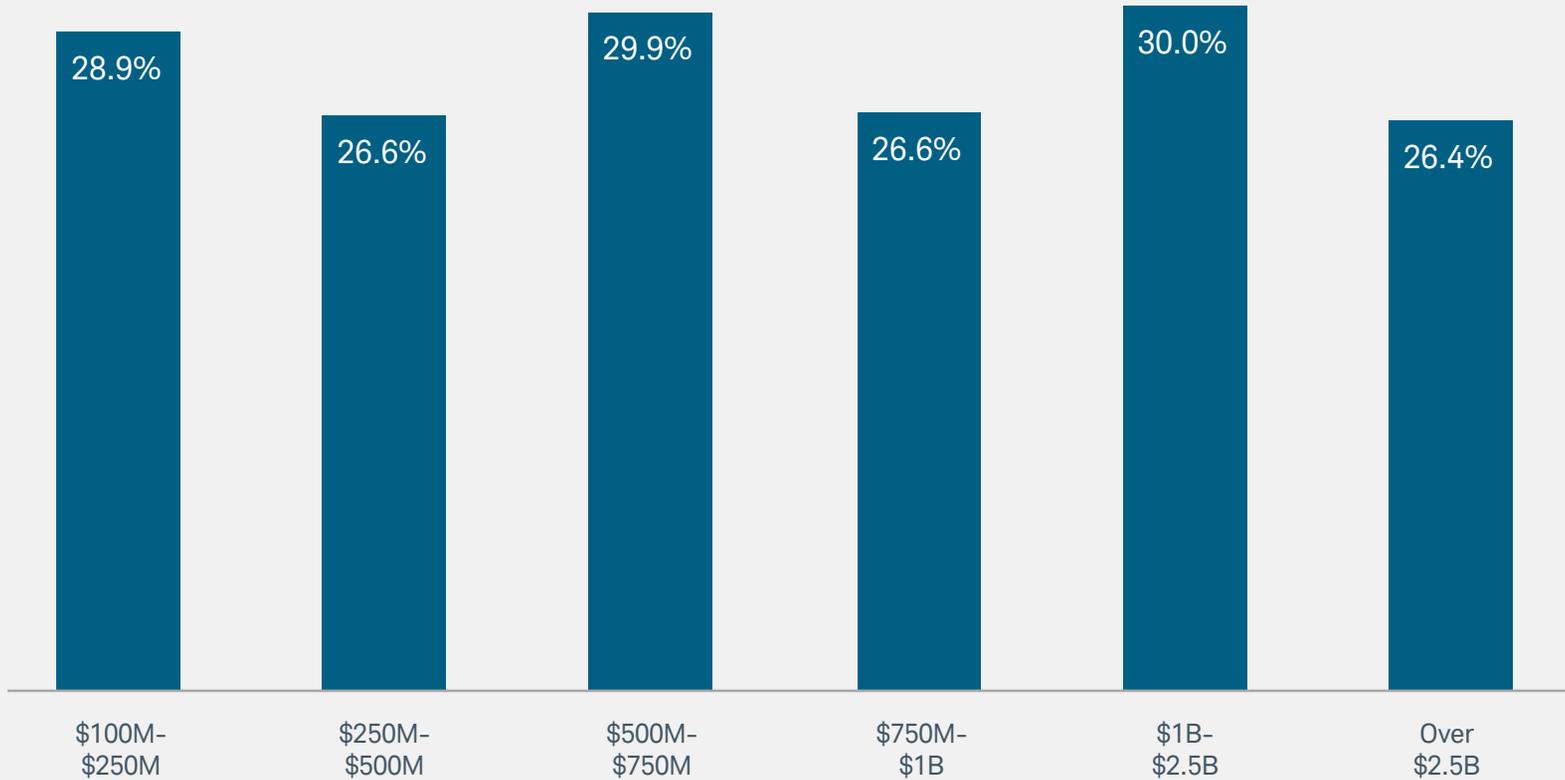


Percent of all firms with \$250 million or more in AUM. 2019 RIA Benchmarking Study from Charles Schwab, fielded January to March 2019. Study contains self-reported data from 1,310 firms. Participant firms represent various sizes and business models categorized into 12 peer groups—7 wealth manager groups and 5 money manager groups—by AUM size.

Firms of all sizes are yielding strong profit margins.

Standardized operating income margin

Median results by peer group (AUM)



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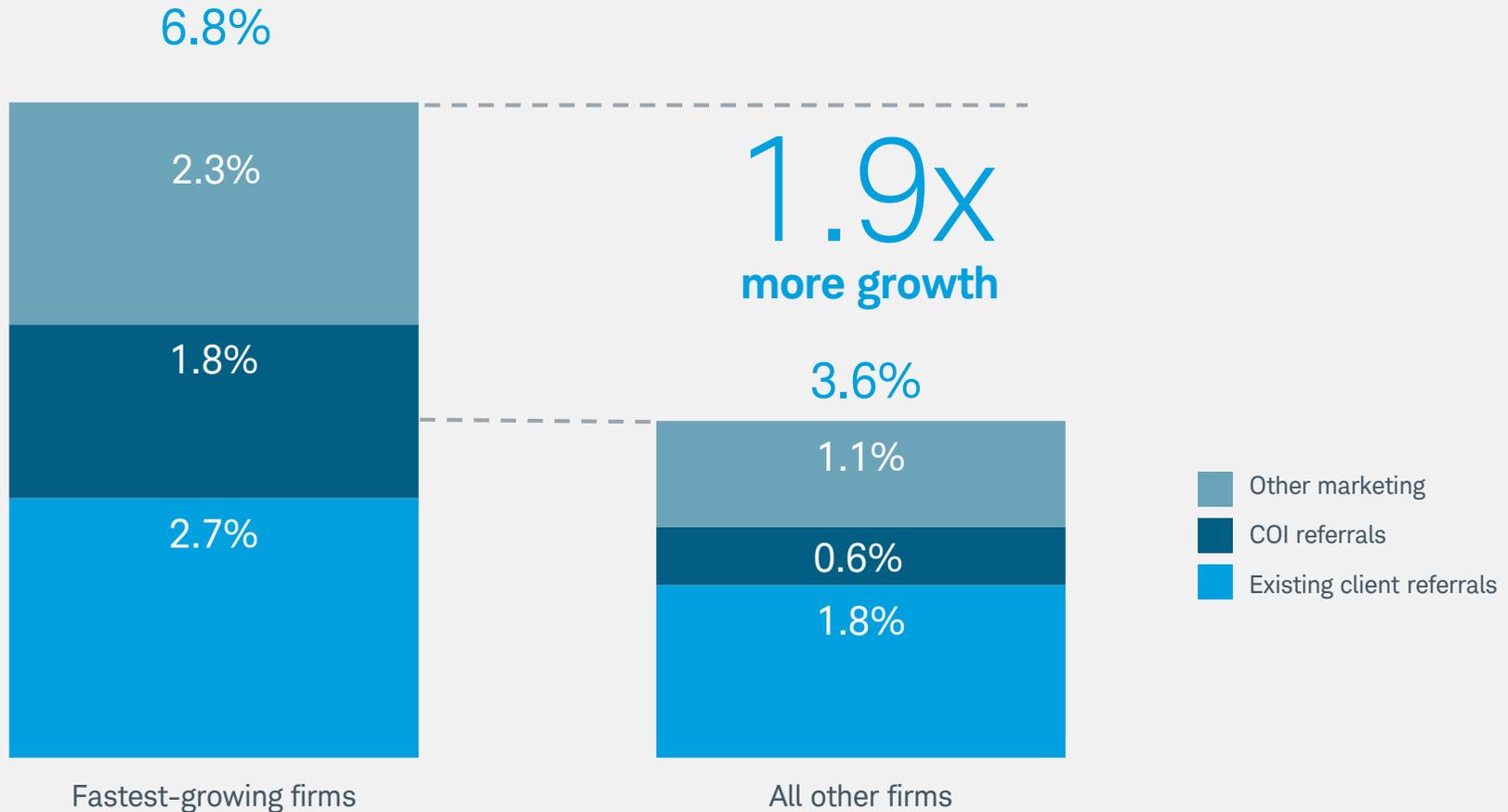
Across the study, new client assets are five times greater than net assets from existing clients.

2018 assets from existing and new clients (\$M)



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Fastest-growing firms saw almost twice the growth in assets from new clients versus other firms, driven by marketing and COI referrals.



Fastest-growing firms are the top 20% of firms with \$250 million or more in AUM based on five-year net organic CAGR. All other firms represent the remaining 80% of firms.

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For fastest-growing firms, 5-year net organic CAGR indicates successful long-term strategies.

	Fastest-growing firms	All other firms	Multiple
5-year net organic CAGR	14.3%	3.7%	3.9x
Net organic growth in 2018	\$68 million	\$20 million	3.4x
Number of new clients in 2018	49	28	1.8x
Assets from new clients in 2018	\$46 million	\$27 million	1.7x
Growth in assets from new clients in 2018	6.8%	3.6%	1.9x

Fastest-growing firms are the top 20% of firms with \$250 million or more in AUM based on five-year net organic CAGR. All other firms represent the remaining 80% of firms. Organic growth from net asset flows is the change in a firm's assets from new, existing, and lost clients before investment performance is taken into account, and it excludes the growth from acquisition or divestiture and from advisors.

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A majority of firms plan to hire, and many are recruiting from other RIA firms.

76%

of firms are planning to hire from external sources in the next 12 months

42%

of firms recruited from other RIA firms in 2018

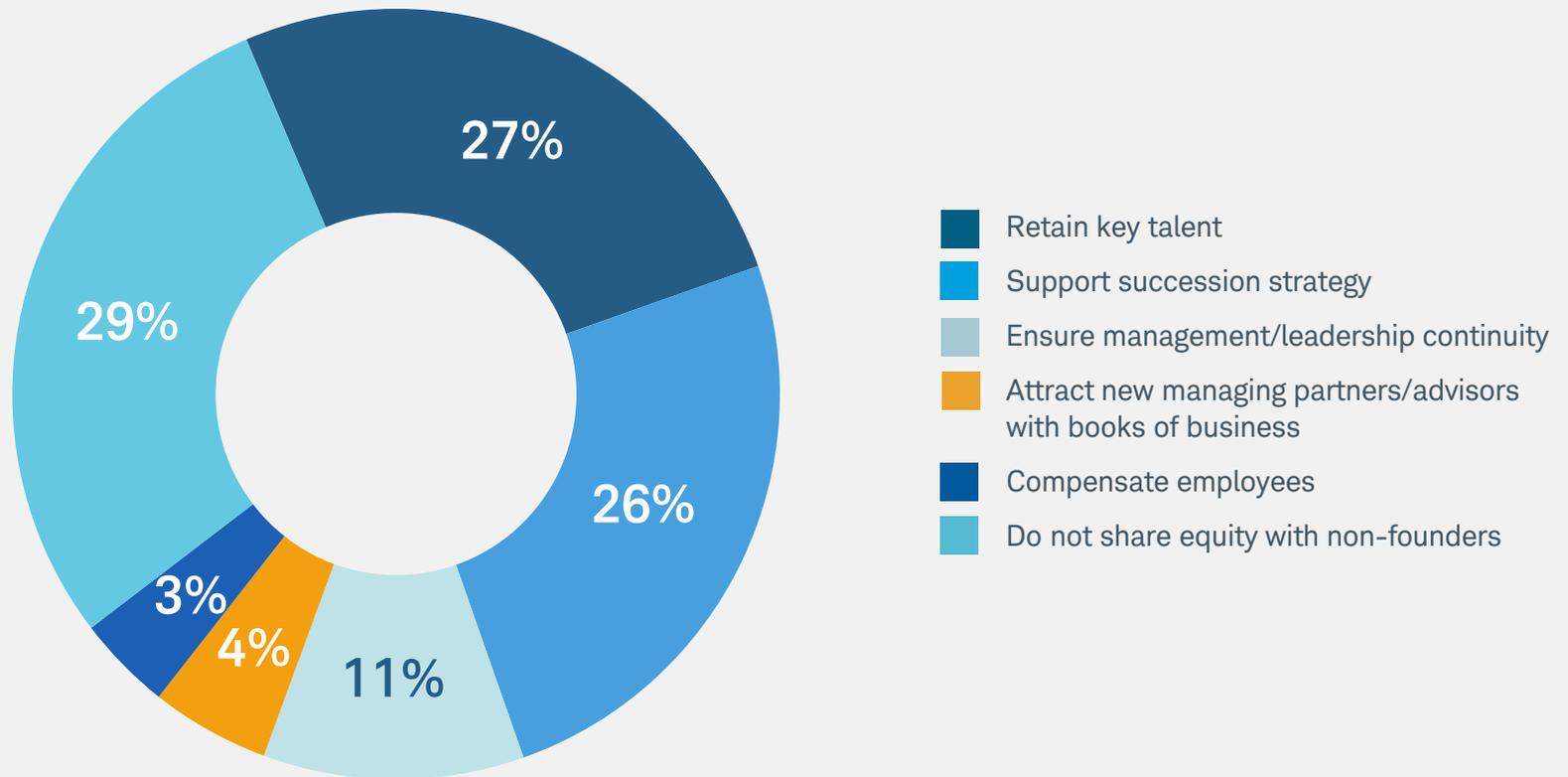
73%

of firms recruiting staff from RIAs share equity with non-founders

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Firms are sharing equity to retain talent and support their succession strategy.

Primary reason for sharing equity

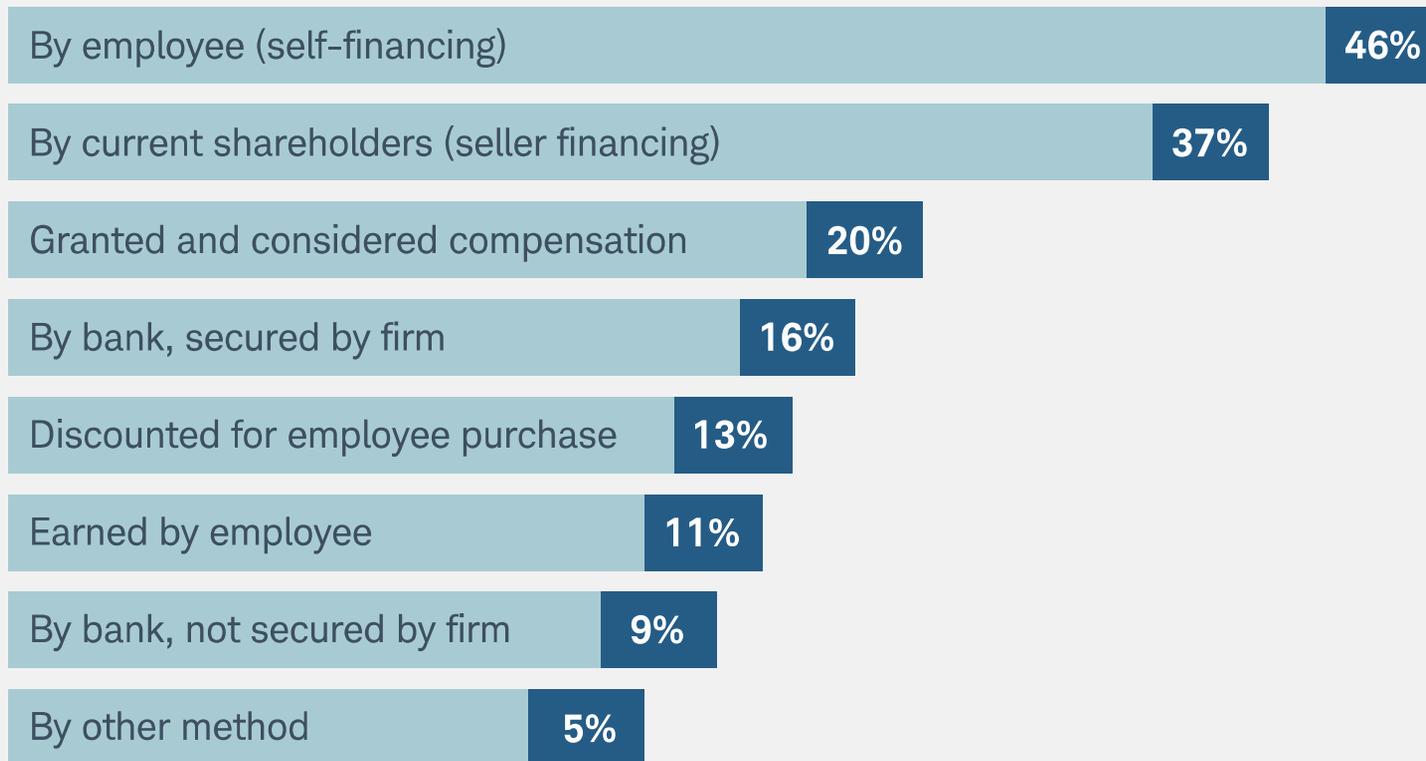


Note: Percentage of firms with \$250 million or more in AUM that selected each response.

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Equity financing options have expanded recently, although employees most often finance the purchase.

Equity financing options



Note: Percentage of firms with \$250 million or more in AUM that selected each response of the firms that offered equity to employees. Firms could select multiple responses.

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Methodology

Advisor Services

The 1,310 firms in the 2019 study represent \$1.1 trillion in AUM.

Metrics (median)	Peer Groups						
	All firms \$250M+	\$100M- \$250M	\$250M- \$500M	\$500M- \$750M	\$750M- \$1B	\$1B- \$2.5B	Over \$2.5B
2018 ending AUM (\$M)	\$672	\$171	\$343	\$604	\$870	\$1,433	\$3,659
5-year AUM CAGR ¹	7.5%	7.8%	7.6%	6.5%	8.4%	7.8%	6.5%
2018 organic growth ² (\$M)	\$24	\$7	\$17	\$26	\$48	\$45	\$118
5-year organic growth ² CAGR ¹	5.1%	5.3%	5.7%	4.6%	5.8%	5.0%	3.8%
2018 revenues (\$K)	4,193	\$1,280	\$2,449	\$4,052	\$5,523	\$9,000	\$21,594
5-year revenue CAGR ¹	9.4%	9.1%	9.7%	9.0%	10.4%	9.5%	8.4%
2018 ending number of clients	380	170	256	358	380	668	1,211
5-year client CAGR ¹	5.4%	4.9%	5.8%	5.5%	6.0%	5.9%	3.9%
Average assets per client (\$M)	\$1.90	\$1.08	\$1.41	\$1.97	\$2.54	\$2.30	\$4.81
Standardized operating margin	28.2%	28.9%	26.6%	29.9%	26.6%	30.0%	26.4%
Age of firm (years)	22	15	20	21	20	25	26

¹ Median compound annual growth rate (CAGR) over the five-year period from 2014 to 2018. Past performance is not an indicator of future results.

² Organic growth from net asset flows is the change in a firm's assets from new, existing, and lost clients before investment performance is taken into account, and it excludes the growth from acquisition or divestiture and from advisors joining or leaving.

Median results by peer group (AUM) unless otherwise noted. 2019 RIA Benchmarking Study from Charles Schwab, fielded January to March 2019. Study contains self-reported data from 1,310 firms. Participant firms represent various sizes and business models categorized into 12 peer groups—7 wealth manager groups and 5 money manager groups—by AUM size.

Methodology

- Schwab designed the RIA Benchmarking Study to capture insights in the RIA industry based on study responses from individual firms.
- Fielded from January to March 2019, the study contains self-reported data from 1,310 firms that custody their assets with Schwab Advisor Services and represent \$1.1 trillion in AUM, making this the leading study in the RIA industry. This self-reported information was not independently verified.
- Since the inception of the study in 2006, more than 3,600 firms have participated, with many repeat participants.
- Participant firms represent various sizes and business models. They are categorized into 12 peer groups – seven wealth manager groups and five money manager groups – by AUM size.
- Unless otherwise noted, study results are for all firms with \$250 million or more in AUM, representing the vast majority of this year’s participants.
- The fastest-growing firms are the top 20% of firms as determined by net organic growth (five-year net organic compound annual growth rate). This cohort includes 154 firms out of 768, all of which have \$250 million or more in AUM.
- Net organic growth is the change in assets from existing clients, new clients, and assets lost to client attrition before investment performance is taken into account, and it excludes the growth from acquisitions, divestitures, and advisors joining or leaving a firm with assets.

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