



State of the Firm: Attacking the Challenges of Running an Independent Firm Today

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Presented by Dennis Gallant, GDC Research



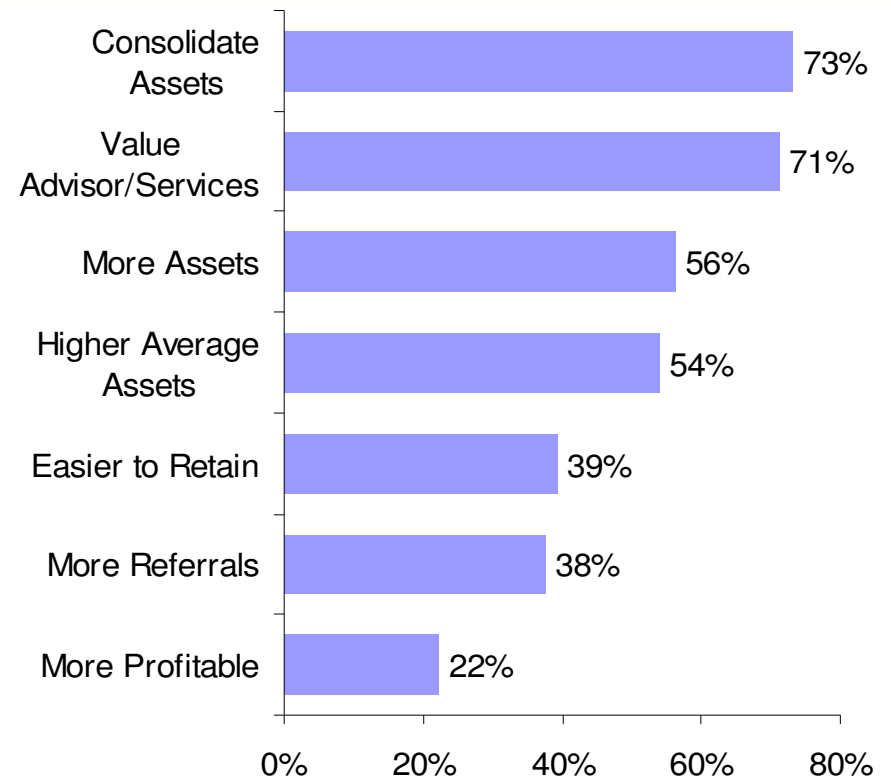
Our Discussion

- Marketplace Opportunities and Strengths
- Review the Top Challenges Facing Firms
 - Regulation
 - Profitability
 - Recruitment and Retention
- Top Priorities and Actions Taken
 - Advisor Production
 - Technology Efforts
 - Advisory
 - M&A
- FSI Independent Broker-Dealer Survey
 - 58 BD's participated in the survey providing directional insight
 - Represents a cross-section of FSI members from small to large firms and from private to insurance company ownership

Demand for Advice

- Growing demand for advice
- 78 million baby boomers will begin to retire this decade
- Need to recover and rebuild portfolios
- Investors are seeking assistance
 - Clients looking for change/consolidation
 - Not sure where to turn to for help
- Complexity of consumer needs favors using an experienced advisor
- Supply and demand imbalance
 - Shrinking pool of skilled advisors

Ranking Advisor Benefits of Serving Retirement Income Clients

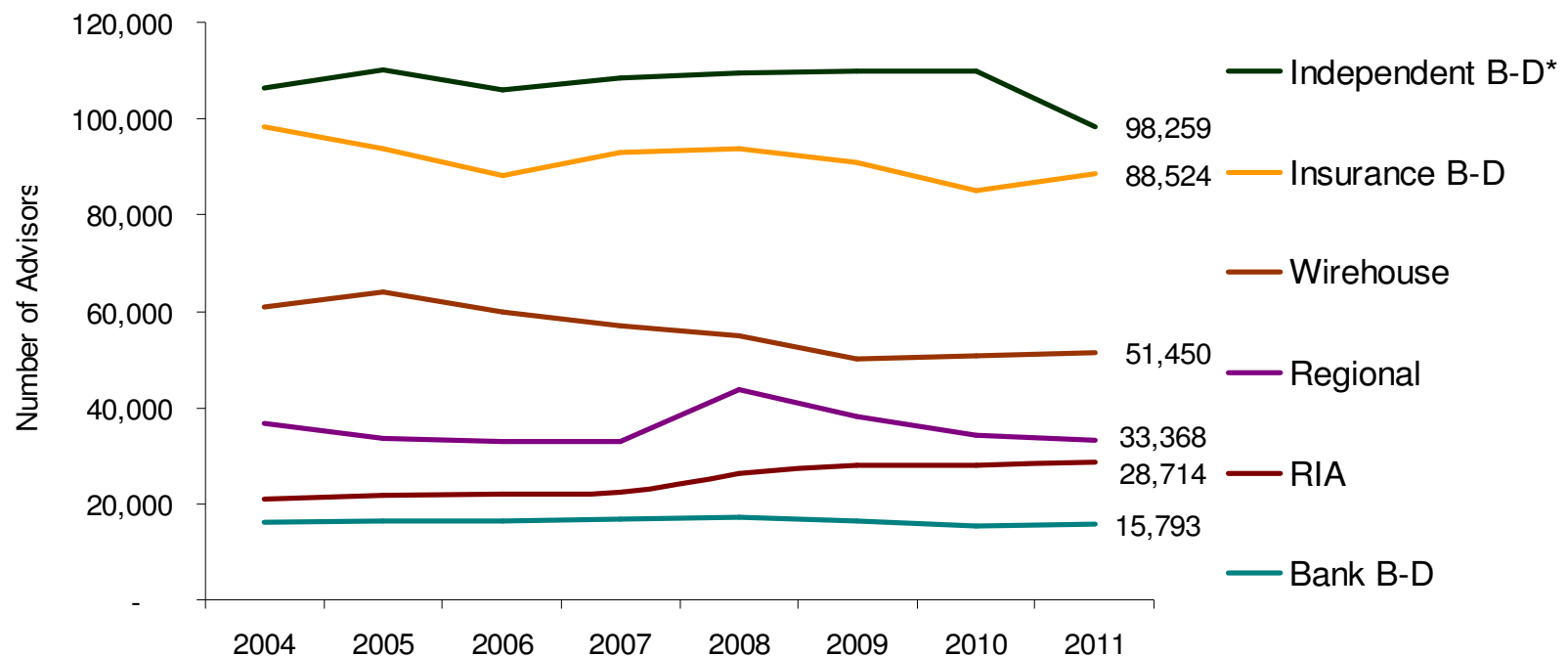


Source: Trends in Advisor Delivery of Retirement Income - 2012



Largest Channel and Growing

- Independent BD's are the largest advisor channel by number of advisors
- 71% of IBD firms surveyed believed Independent BD's will continue to grow and gain market share from wirehouses and other channels
- How do Hybrid Advisors factor in?



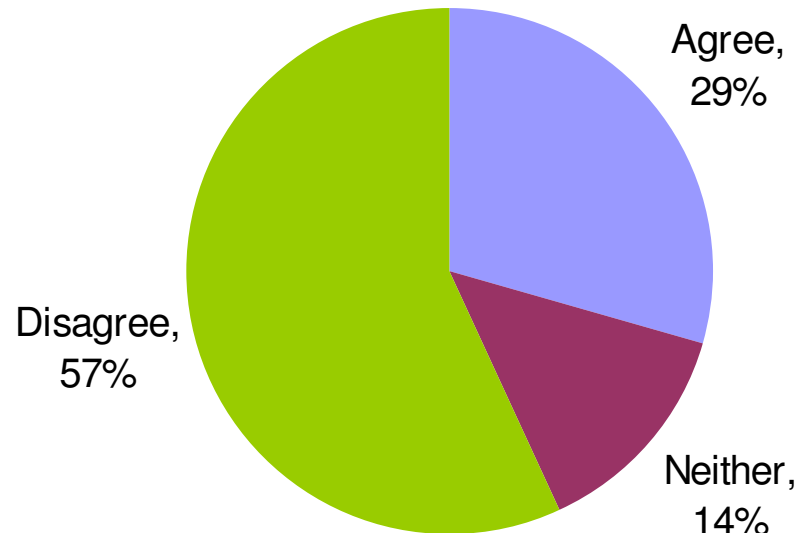
*Includes Hybrids

Sources: Securities Industry and Financial Markets Association, Investment News, Financial Planning, Bank Insurance Marketing Research Group, National Regulatory Services, S&P Capital IQ MMD, Meridian IO, Cerulli Associates, Dow Jones Advisor Blog

Competitor Recognition

- Wirehouses continue to focus on top producers and are willing to lose their share of lower-end advisors
- But they recognize the impact of the IBD marketplace and recruiting activity
- Discussions about creating a independent or independent-like option are surfacing again
- Skeptical wirehouses will pull the trigger
 - Lower margins on advisors
 - Aging rep based lessons chances of switching channels
 - Wirehouse compensation packages increase focus on retention

Anticipate wirehouses will create an independent contractor offering in the next 3 years



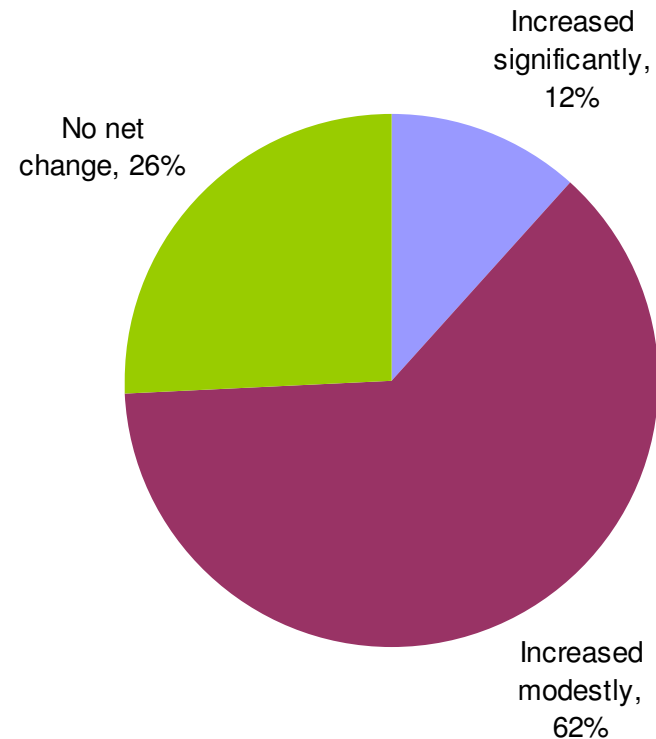
Source: FSI Industry Challenges Survey – 4Q2012



IBD Advisors Well Positioned

- IBD channel provides the greatest flexibility for advisors to meet client needs
- IBD advisors are
 - More planning oriented
 - Best practitioners in delivering retirement income
 - Leads the market in serving more retirement income clients
 - Serve a broader range of client affluence than peer channels
 - More innovative – the pool or bucket philosophy for income management developed out of the IBD marketplace
- Flexibility and diverse business models is a double edged sword

Net Change in Retirement Income Clients Served by IBD Channel



Source: Positioning Retirement Income with Clients and Prospects 2013 – Practical Perspectives & GDC Research



Factors Impacting IBDs

12b-1 Reform

Increasing Competition
for Recruits

Rising Practice
Management Support

Low Interest Rate Environment

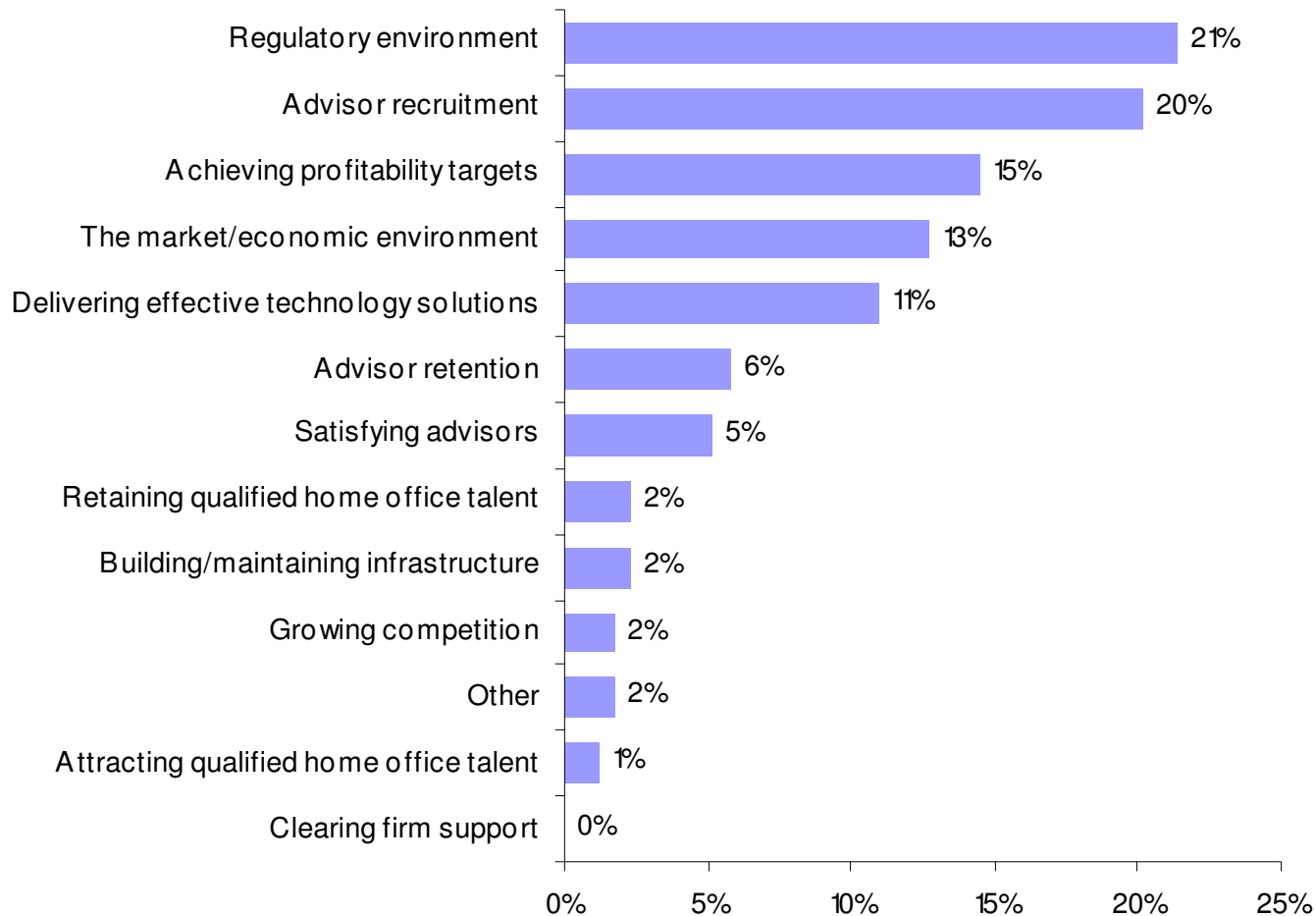
Establishing Own RIA

Regulatory Environment

Increasingly Diverse
Advisor Practices Models



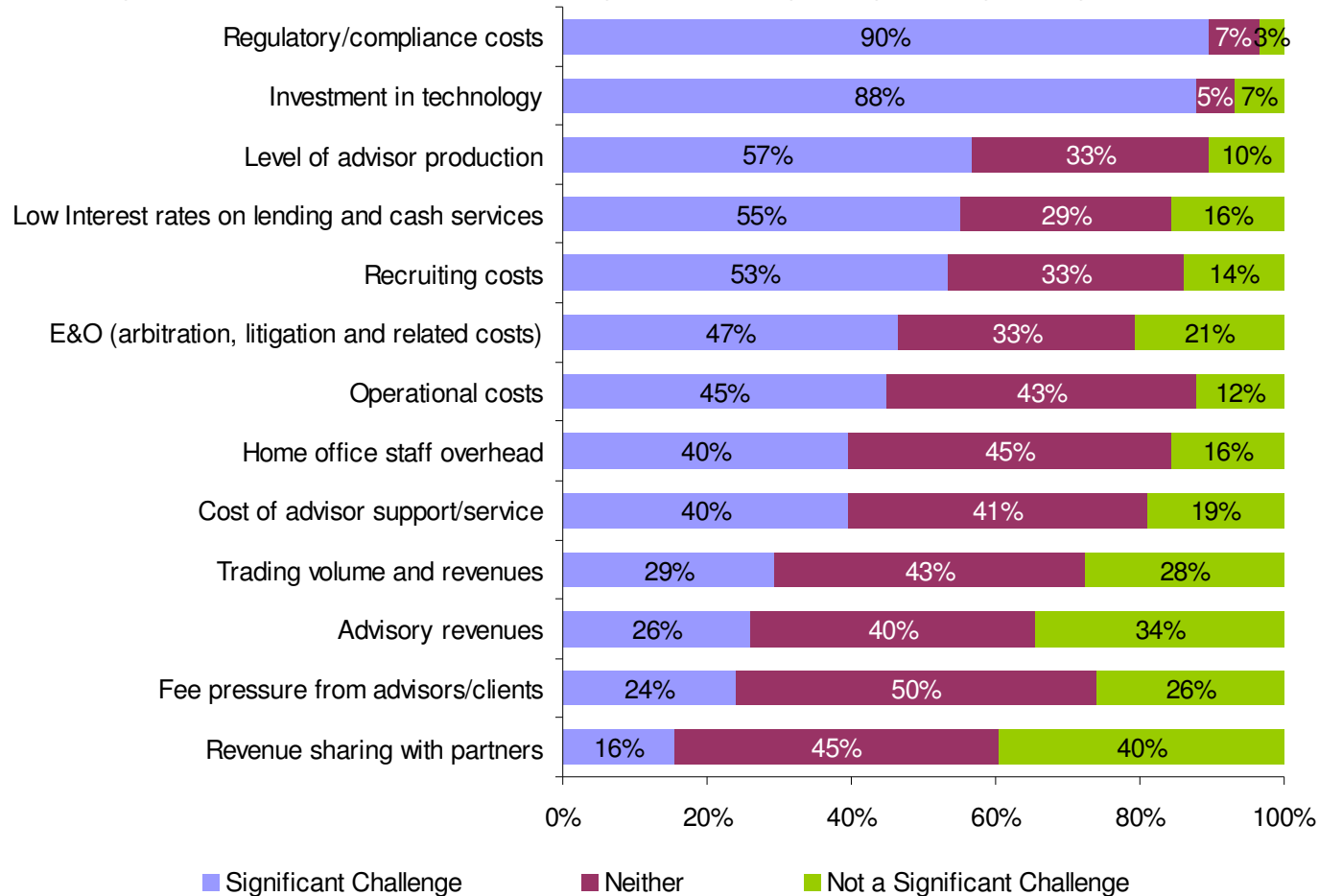
Top IBD Challenges



Source: FSI Industry Challenges Survey – 4Q2012

Margins and Revenues

To what degree are each of the following a challenge regarding Margins and Revenues



Source: FSI Industry Challenges Survey – 4Q2012

Regulation

- Regulation is a top burden and challenge for IBD firms
 - Disclosure
 - Suitability
 - Changing regulation
 - Arbitration
- Varied advisors business models add to the oversight and the regulatory burden
 - How has it impacted target recruits and retention of advisors frustrated with compliance
- What are the Regulatory costs
 - Staffing, arbitration, monitoring and related technology
 - What efforts can be employed to lower cost

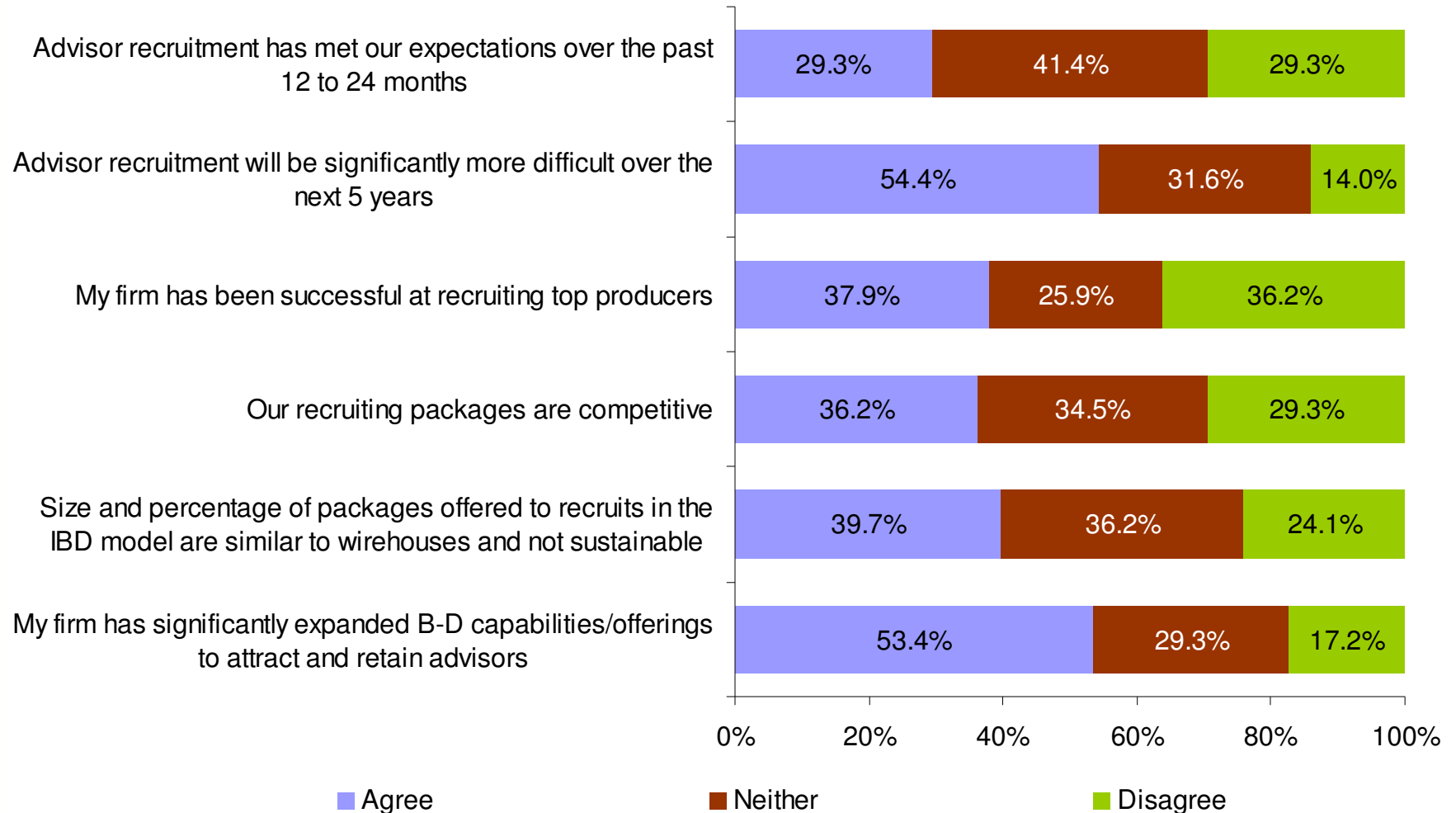


Addressing Margins and Revenues

- What costs and revenues can you control or influence
- Regulation not likely to change in the near term
 - As well as low interest rates
- Technology can help lower cost and improve production
 - But requires advisor adoption
 - Time to develop and implement
 - For some firms the ROI is uncertain and a difficult expenditure given profitability struggles
- Advisor production
 - Is one area that IBD firms can influence
 - Tools and support are readily available
 - It requires more resources and costs
- When will advisor retention payments make the list?



Perspectives on Recruitment

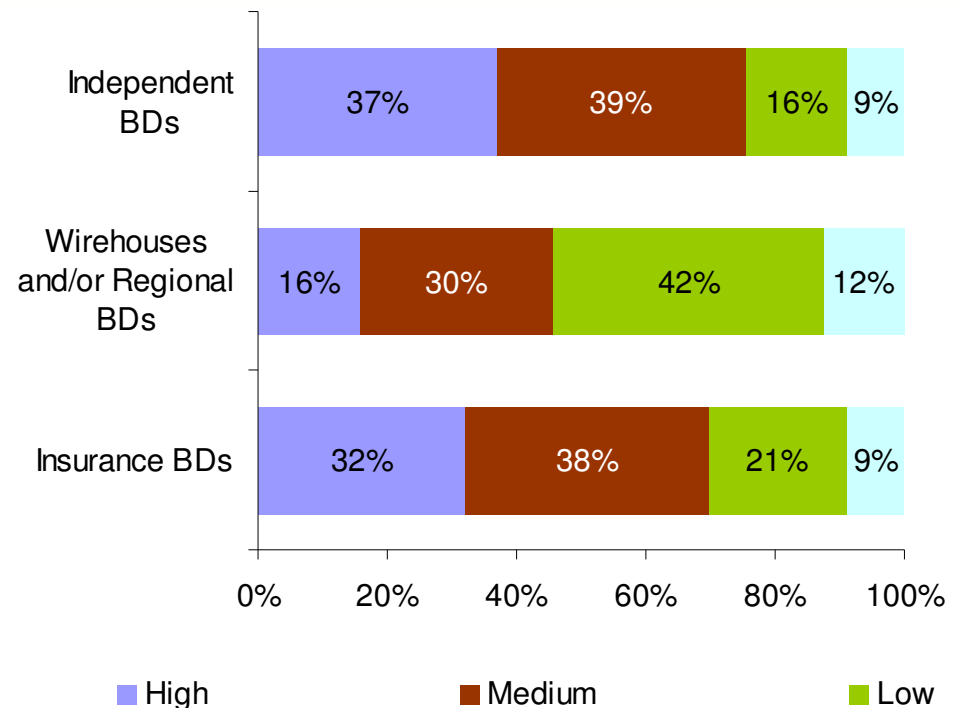


Source: FSI Industry Challenges Survey – 4Q2012

Recruitment Perspectives

- Most firms agree recruiting will become more difficult
 - More difficult or more costly
- Facing the New Entrant Gap in 2013
 - Training of new entrants was virtually halted in 2008 and 2009, creating a gap of advisors with 4 to 5 years of experience
- Other independents and Insurers are the source of most recruits
 - Limited success recruiting from wirehouses
 - Longer production ramp up when shifting from wirehouse to independent

Sources of Recruits

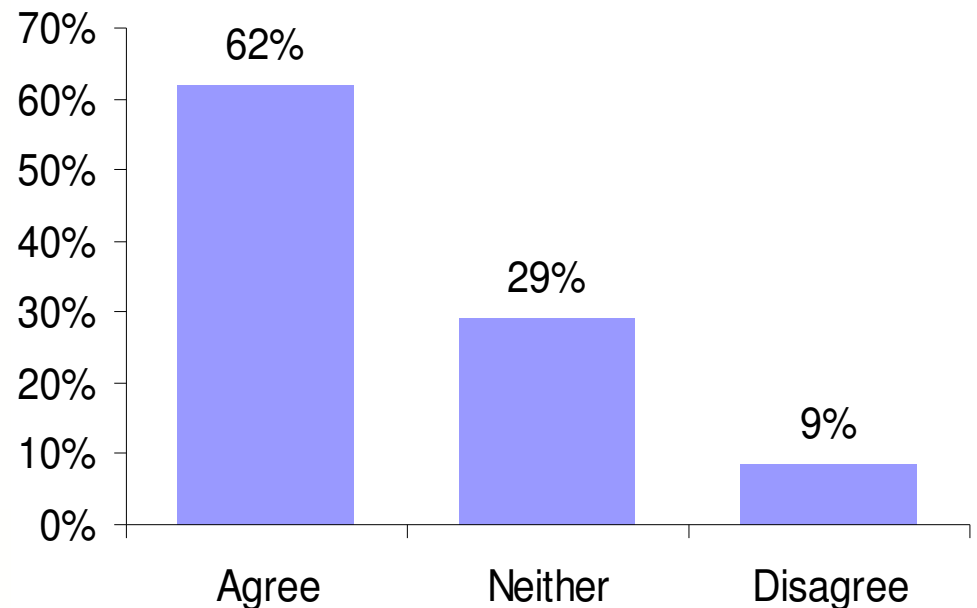


Source: FSI Industry Challenges Survey – 4Q2012

What about Retention

- Retention ranked low as a challenge
 - 84% of IBD firms surveyed believed their advisors are very satisfied with their BD
- Other IBDs are the primary sources of recruits
- Need to increase focus on retention
 - What's the cost to recruit versus retain

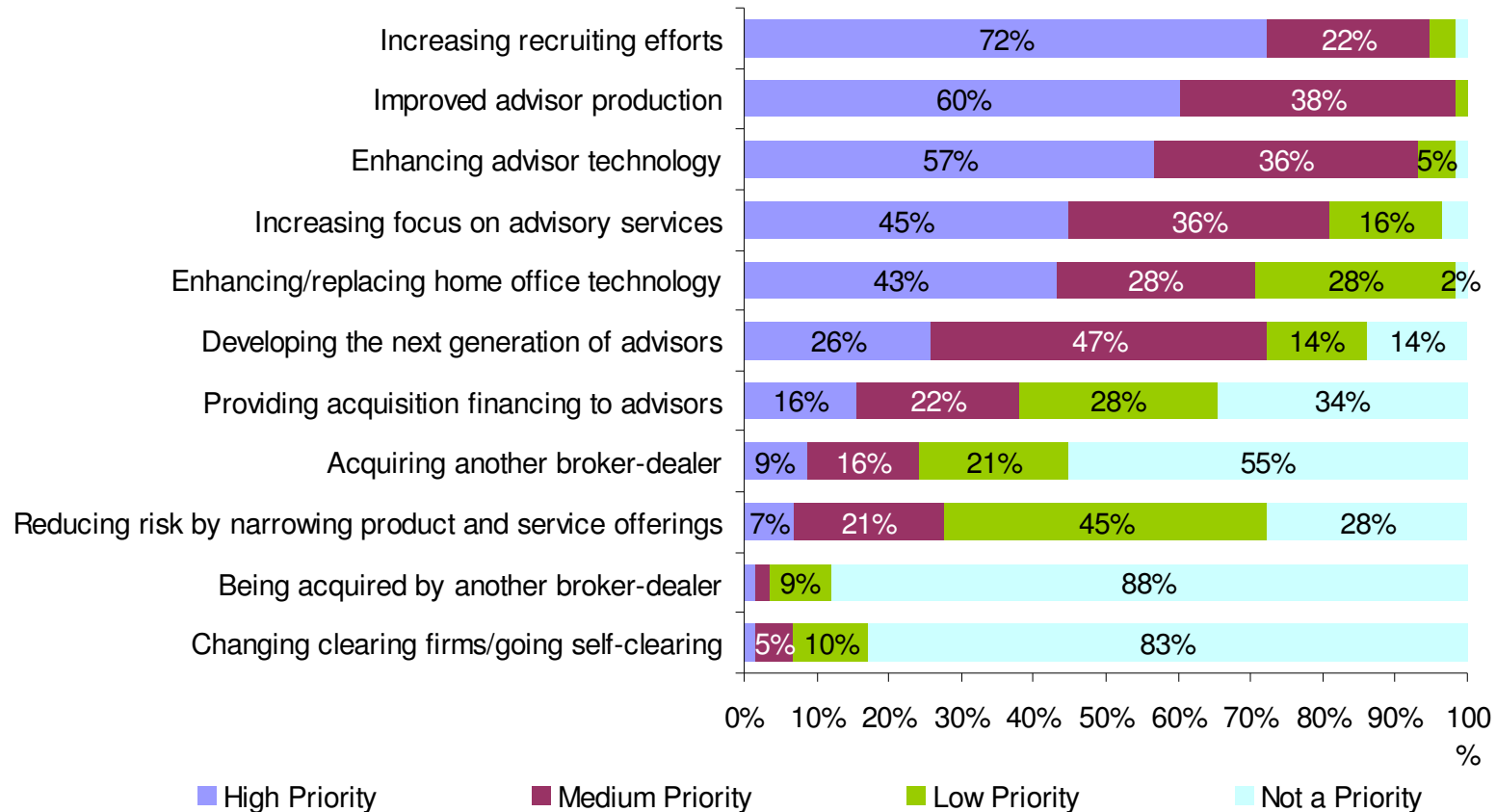
Advisors are increasingly asking for retention payments, payout increases, etc. in exchange for agreeing not to leave the BD



Source: FSI Industry Challenges Survey – 4Q2012

What are the Priorities

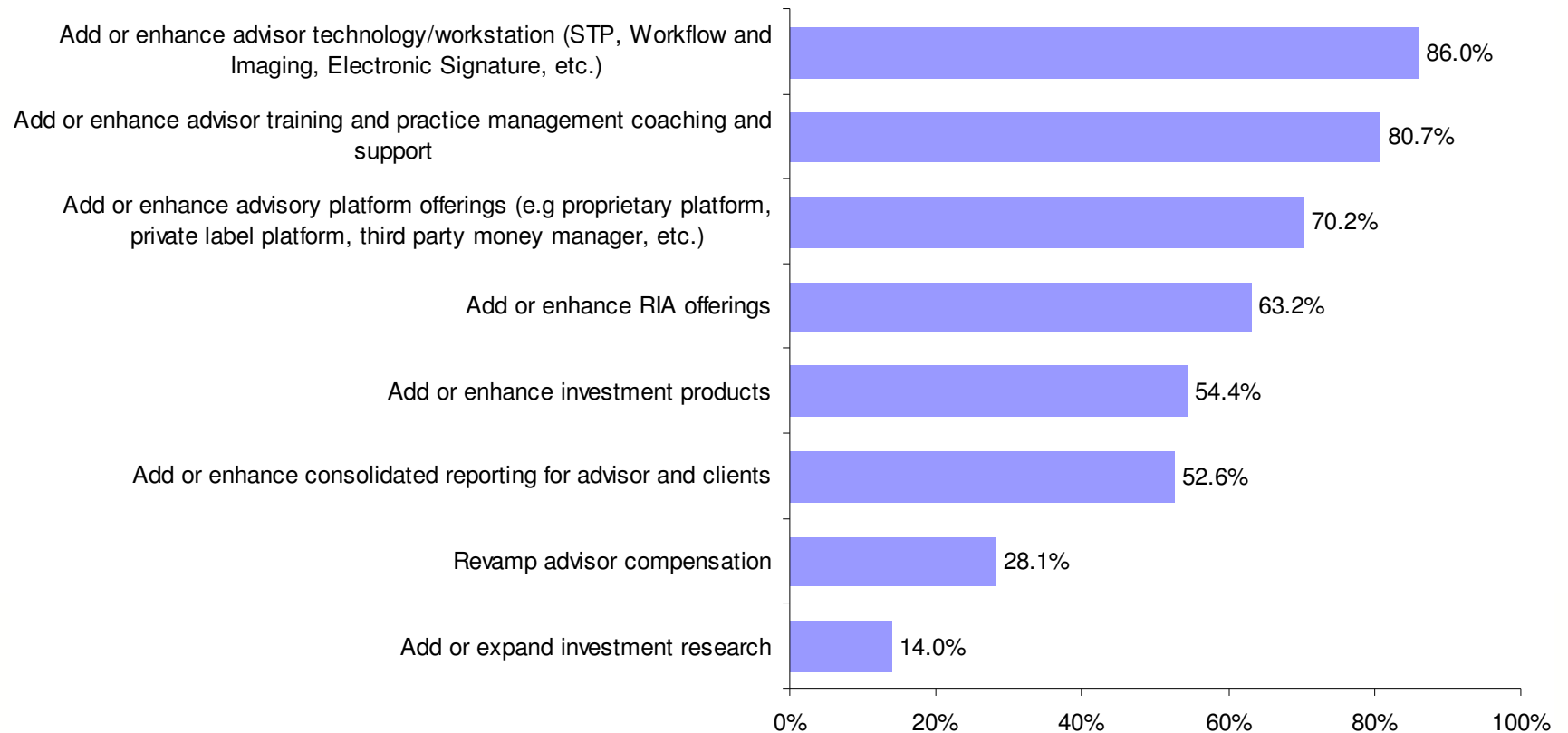
Top priorities of IBD Firms over the past year or in the coming 12 months



Source: FSI Industry Challenges Survey – 4Q2012

What Firms are Doing

Enhancements or changes IBD firms have made in the past year or intend to make in the coming 12 months



Source: FSI Industry Challenges Survey – 4Q2012

Technology

- Technology is a top priority and a significant expense
 - Workflow management, automation, paperless environment
- What is the extent of manual or exception process at your firm
 - What are the costs (resources, time, and money)
- Are firms maximizing the technology they have access?
 - Too expensive
 - Using proprietary solutions over clearing or third-party
 - Don't have access
- Are advisors using technology solutions provided?
 - Advisors are looking for more integration with technology they already have, not more solutions



Improving Advisor Production

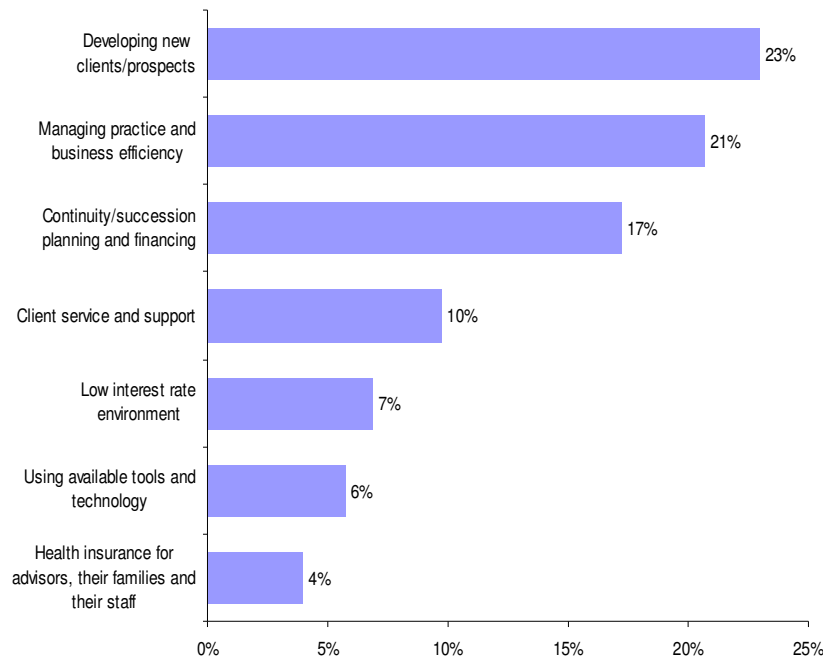
- Improving production is a top priority
 - Advisors are generally satisfied with their broker-dealer, but the marketplace has become more complex, they are working harder and doing more for their clients but improving production is a top priority
- Improving production requires more hands on involvement
 - Practice management, coaching, etc. are key elements in driving production, but efforts are costly, have limited scale, and are often understaffed
- Advisors are seeking more face time with the home office and field support
 - Advisors are seeking assistance in what technologies to use and how to use them
 - An assessment or validation of their process
 - Frustrated by lack of home office staffing, field support, and expertise
- What services and tools drive production?
- What segments or key attributes should IBD focus on



Developing New Clients/Prospects

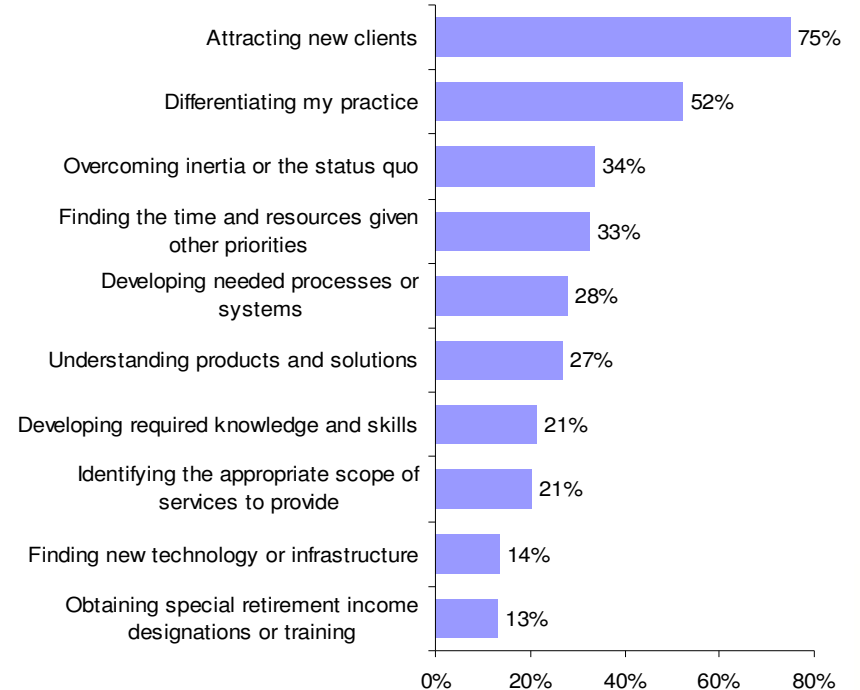
- IBDs are inline with challenges facing advisors
- Gateway for changing behavior, encouraging adopting of tools/technology, and for seeking support services

Most Significant Challenges Facing Advisors



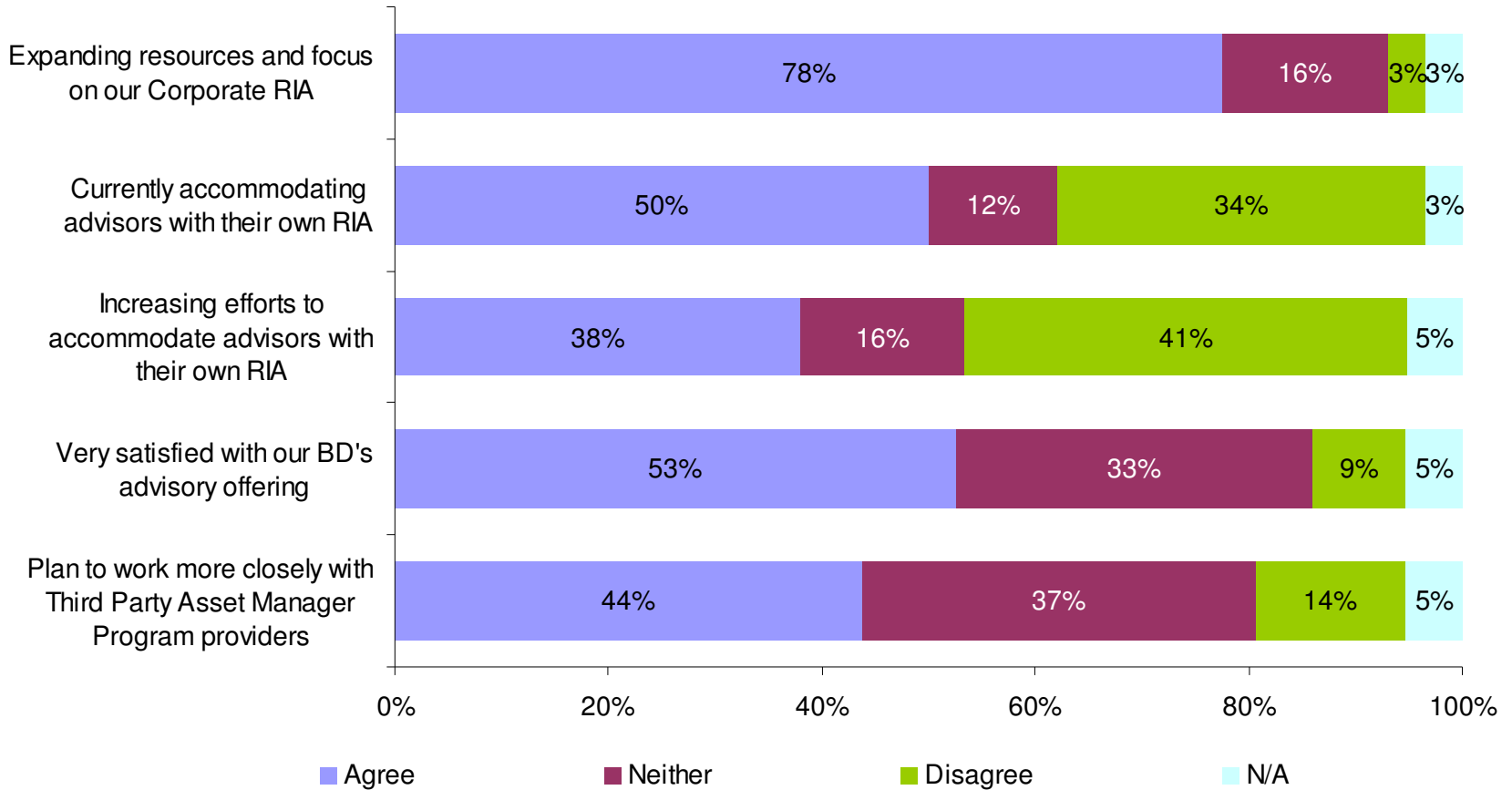
Source: FSI Industry Challenges Survey – 4Q2012

Most Significant Challenges Advisors Face in Growing Their Practice for Retirement Income



Source: Positioning Retirement Income with Clients and Prospects 2013 – Practical Perspectives & GDC Research

Advisory Services



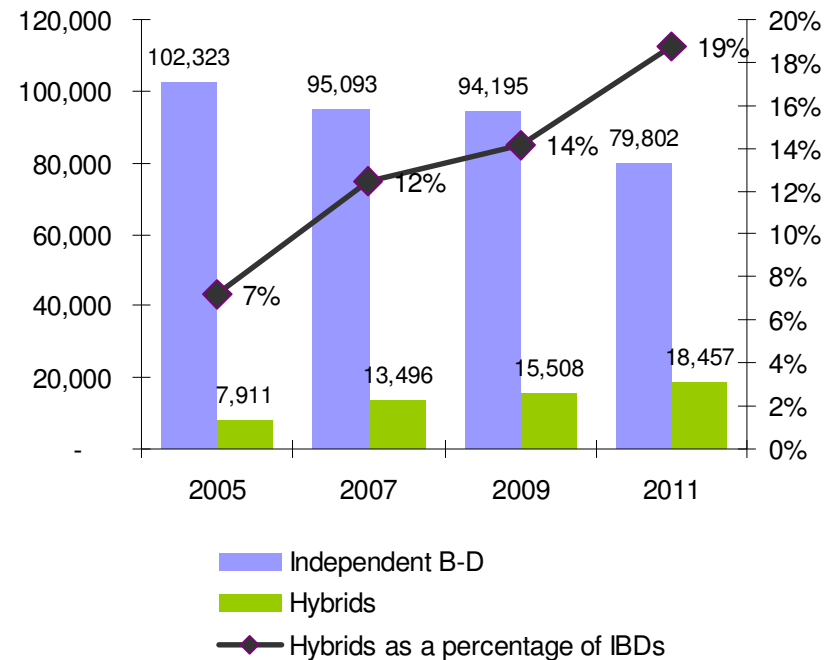
Source: FSI Industry Challenges Survey – 4Q2012



Expanding Advisory Support

- Ranks 4th as a priority and on actions taken
 - Expanding Corp. RIA Resources
 - Getting advisors to transition to fees is still a challenge
- Expanding the platforms
 - Benefits and trade-offs of proprietary, private label, and TAMP efforts
- The industry has focused on creating an advisory offering
 - Need to focus efforts on helping advisor best use it
- Hybrids
 - Opportunity or Accommodation

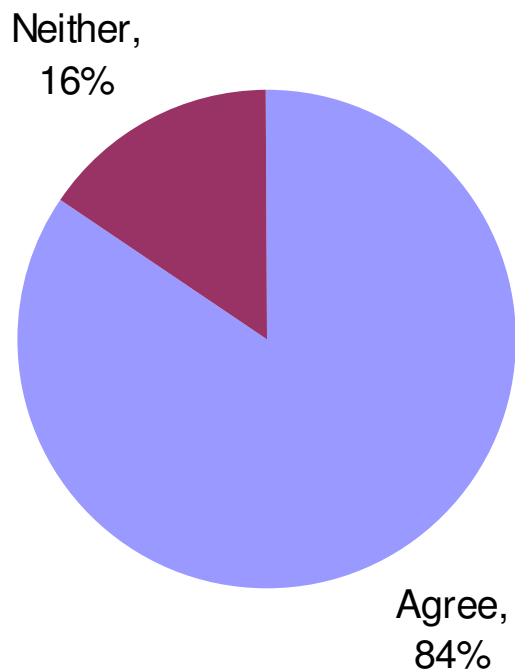
Hybrids are Increasing Market Share



Sources: Securities Industry and Financial Markets Association, Investment News, Financial Planning, Bank Insurance Marketing Research Group, National Regulatory Services, S&P Capital IQ MMD, Meridian IO, Cerulli Associates, Dow Jones Advisor Blog

What about Consolidation

Expect Continued Consolidation of Independent Broker-Dealers



Source: FSI Industry Challenges Survey – 4Q2012

- More consolidation expected, but is not a priority among survey participants
 - Acquiring a BD is not a priority for more than half of the firms surveyed and for 88% being acquired
- Where will consolidation come from?
 - Size of the firm
 - Ownership structure
- Where will the financing and capital come from?



Outlook/Summary

- Increasing demand for advice and advisors
- Independent BD advisors are well positioned in the marketplace
- Attacking the Challenges
 - Regulation
 - Recruitment
 - Profitability and Cost
 - Technology
 - Meeting Advisor Needs



Questions?

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