



A WINNING FORMULA

TEAMS IN RETAIL WEALTH MANAGEMENT



INTRODUCTION

For financial advisors, working as part of a team is more popular than ever, with 55% of advisors working within some sort of team-based arrangement. And that number is growing – there are 25% more team-based advisors today than there were in 2012. Team-based wealth advice has clearly become an important part of the wealth management landscape. The concept of working in a team environment appeals to advisors in many, and often different ways: The ability to leverage different strengths and skill sets to better take care of clients and grow the business; the discipline that working together brings in terms of setting and achieving goals; and the benefits of a built-in succession plan, where the relationships with clients are more likely to stand the test of time.

With the popularity of teams on the rise, you'll find plenty of information about how to form partnerships and make them effective. However, very rarely are the benefits of teaming actually quantified - until now.

In this **Insights report**, we look at the many benefits of forming and working in a team. Some of the questions we address include:

- ▶ How do advisors who participate in teams compare to those who operate as sole practitioners in terms of assets? Revenue? Productivity?
- ▶ What types of clients are more likely to work with teams?
- ▶ Do teams create deeper, more lasting relationships with clients?
- ▶ Does working in a team help you grow faster? If so, how much faster?
- ▶ When is the best time to consider forming/joining a team?
- ▶ What types of team relationships are most successful?



Team-based wealth advice has clearly become an important part of the wealth management landscape.

To shed light on how working in a team can impact advisor and firm growth, we once again turned to PriceMetrix' aggregated database covering seven million retail investors, 500 million transactions and over \$3.5 trillion in investment assets. PriceMetrix combines its patented process for collecting and classifying data with proprietary measures of revenue, assets and households to create the most insightful and granular retail wealth management database available today.

The insights we uncover in our study will help advisors and their firms gain a concrete, measurable perspective on the benefits of working together in team-based practices. Our data and analysis will help make the case to advisors about why and when teaming makes sense. This information can also be used by policymakers to design compensation programs with the right team-based incentives. For sole practitioners contemplating forming or joining a team, you might find a review of our data helpful in making that decision. And for those already operating a team-based practice, you will gain a tangible means to evaluate how effective your practice is, in terms of growth and client satisfaction, relative to other team-based practices.

HOW DO TEAMS MEASURE UP?

Not surprisingly, teams manage more assets, generate more revenue and maintain more client relationships than sole practitioners. The average team manages \$260m and generates \$1.7m in revenue across 280 relationships, compared to the average sole practitioner who manages \$110m, generating \$830k across 140 household relationships.

To effectively compare advisors who work in teams to those who operate independently, we need to look at team attributes, normalized for the number of team participants.

In doing so, we see that team advisors are still larger and more productive than sole practitioners, averaging \$130m in assets and \$950k in revenue, compared to \$110m and \$830k. Interestingly, teams manage fewer household relationships on a ‘per advisor’ basis – 130 compared to 140 for sole practitioners. Teams are also more likely to manage assets on a fee basis (a percentage of assets under management) with 40% of assets fee-based, compared to 34% for sole practitioners.

Team advisors are larger and more productive than sole practitioners.

	Sole Practitioners	Teams
Assets	\$110m	\$260m
Revenue	\$830k	\$1.7m
Households	140	280

	Sole Practitioners	Team Advisors
Assets	\$110m	\$130m
Revenue	\$830k	\$950k
Households	140	130
Fee-Based Ratio	34%	40%

On the Challenge of Defining a “Team”

One of the most significant barriers in undertaking a data-driven study of teams is determining which advisors are operating in a team-based relationship. Most firms do not maintain an up-to-date, central registry of teams, their participants, and associated economic arrangements. Most compensation systems, though, do house ‘revenue split’ arrangements, where an account, or a set of accounts, may produce compensation that is shared across multiple advisor codes.

Using these revenue split codes, we divided advisors into three groups by analyzing their revenue arrangements:

1) advisors who receive the majority of their revenue from these ‘revenue split’ arrangements,

2) those who receive little or none of their revenue through splits, and

3) those who receive some, but not the majority of their revenue from split arrangements.

The latter group is typically sole practitioners who may have some business they share with another advisor, but maintain a book of their own. Often these advisors are in the midst of taking over another practice and are sharing a portion of revenue on the inherited assets over time.

In order to have the truest comparison of sole practitioners and teams, this study contrasts the first two groups: sole practitioners and teams.

WHAT TYPES OF CLIENTS ARE MORE LIKELY TO BE SERVED BY A TEAM?

Clients who work with team-based advisors have more assets invested. The average team-serviced household has \$1.1m invested, 17% more than the average sole practitioner household. Teams also have fewer small household relationships, with 38% of client relationships having less than \$250k invested, vs. 43% for sole practitioners. With a clear link between client age and average assets, you would expect team-serviced clients to be older than those of sole practitioners, but in fact they are younger – 62 compared to 63. Overall, 29% of team-serviced clients are under 55, compared to 27% for sole practitioners.

Interestingly, we found little difference between team and sole practitioner advisors with respect to client gender; however, we did observe a higher prevalence of joint accounts, as well as household relationships that include both male and female account holders with teams. While certainly not everyone in this arrangement would be considered a ‘couple’ (nor would all couples be categorized within this group), we do see a slight preference amongst couples to be serviced by a team, rather than by a sole practitioner.

Clients who work with team-based advisors have more assets invested.

	Sole Practitioners	Teams
Average household assets	\$880k	\$1.1m
Households with less than <\$250k invested	43%	38%
Average client age	63	62
Percentage of clients under 55	27%	29%
Joint accounts	7%	9%
Mixed gender households	39%	42%

TEAMS CREATE DEEPER, MORE LASTING RELATIONSHIPS WITH CLIENTS

Our data shows that clients of teams demonstrate greater willingness to consolidate more of their financial relationships than those of sole practitioners. Specifically, clients who invest with a team have more accounts per household: 3.3 compared to 3.0 for clients of sole practitioners. Team-serviced clients are also more likely to have their retirement account serviced as part of the relationship: 74% of team-serviced relationships have a retirement account, compared to 72% of sole practitioners. Finally, teams are more likely to have both fee and transactional accounts in the same relationship.

Deeper relationships typically result in higher levels of productivity (Revenue on Assets, or 'RoA') for two reasons:

- 1) As more financial needs are met, more value is delivered, and
- 2) Those who act as the 'primary' financial advisor to an end client often achieve that status by delivering more value than other providers¹

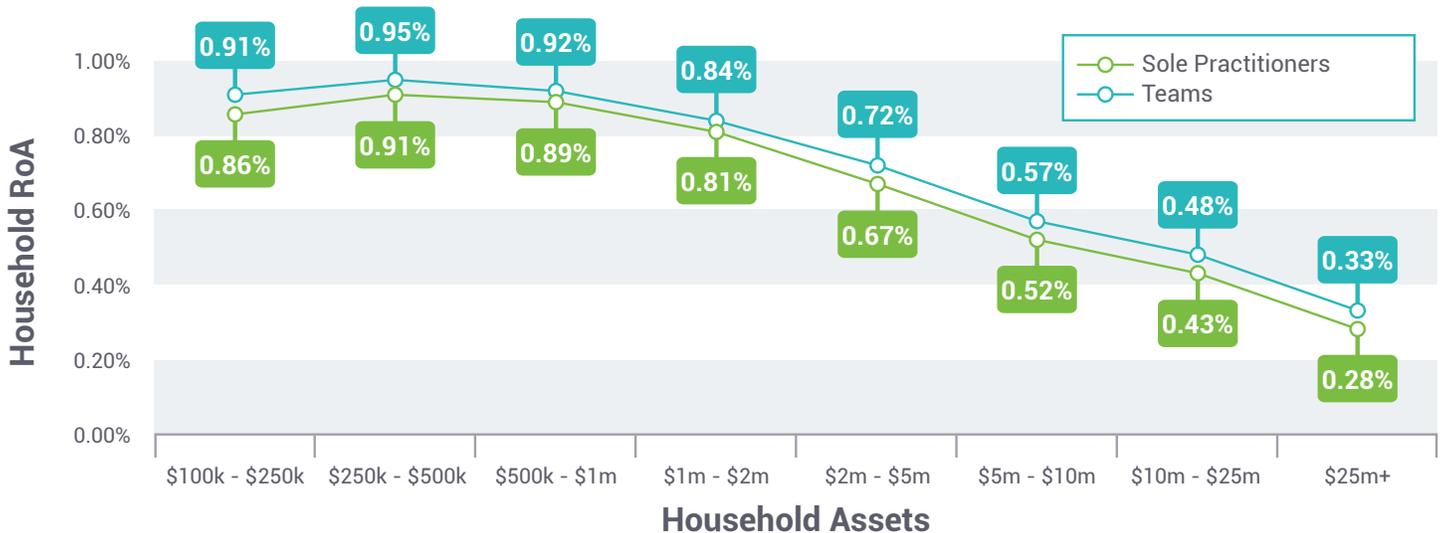
Here we see that teams have higher RoAs across all asset sizes than sole practitioners, suggesting that more value may be exchanged between clients and their team-based advisors.

Another benefit of deeper relationships is that clients tend to stay slightly longer with their advisor, or in this case, team. Teams exhibit lower rates of client attrition than sole practitioners for both priority clients (clients with more than \$250k invested), and premium clients (more than \$2M invested).

	Sole Practitioners	Teams
Accounts per household	3.0	3.3
Households with retirement accounts	72%	74%
Hybrid households (those with both fee and transactional accounts)	24%	31%

	Sole Practitioners	Teams
Priority client attrition (households with >\$250k invested exiting over two years)	8.2%	7.5%
Premium client attrition (households with >\$2M invested exiting over two years)	5.7%	5.3%

Median Household RoA



¹ PriceMetrix Research: Retirement Accounts: Good for Your Clients, Good for You, 2012

ACHIEVING SCALE THROUGH TEAMS

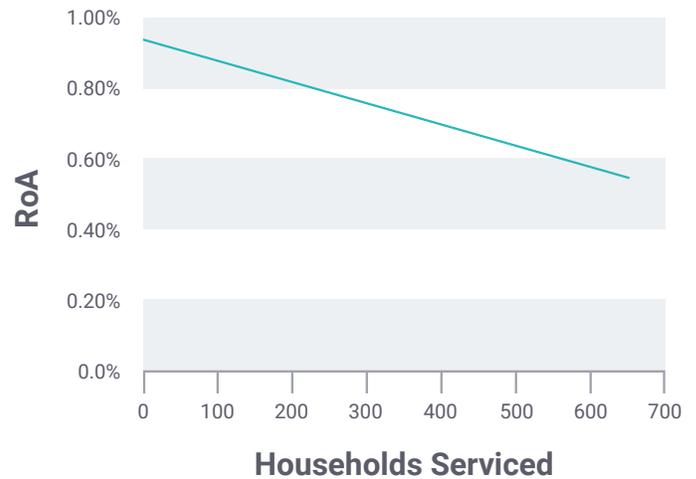
An often problematic characteristic of full service advice is that it doesn't scale especially well. One of the ways we see this reflected is in lower rates of productivity (measured by RoA) for practices with more relationships. This presents a significant challenge for advisors and firms; there are clear incentives to grow, but growth often comes at the expense of declining marginal productivity.

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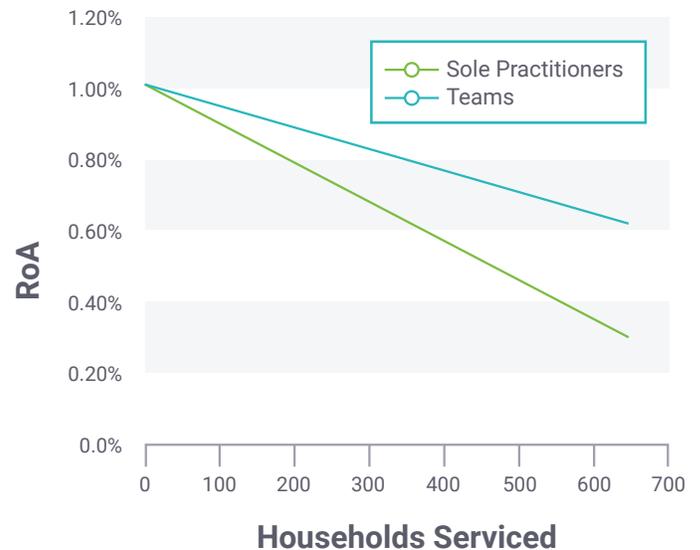
In looking at service scalability for both teams and sole practitioners, we see that while team productivity declines as practices grow, the decline is not as steep as it is for sole practitioners. Our data and analysis conclude that teams are a more efficient way to grow a practice, and that encouraging teams should be a core strategy for firms seeking productivity gains.

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Full Service Scalability: RoA and Practice Size



RoA and Practice Size



DOES WORKING IN A TEAM HELP YOU GROW FASTER?

One of the appealing expectations of advisors forming a team is they can accomplish more together than they could separately – that synergies will lead to growth. We observed the benefit of scale previously in looking at the RoA of teams vs. sole practitioners at different practice sizes – but what about the absolute growth rate of teams? Do teams, in fact, grow faster? Indeed, they do.

From 2013 to 2015, advisors in teams grew assets by a median annualized rate of 7.9% and revenues at a rate of 9.1%. Sole practitioners, on the other hand, grew assets and revenue at 7.1% and 8.3% respectively. Not only do teams experience 11% faster asset growth and 17% faster revenue growth, they do so off of a larger asset and revenue base.

In addition to faster growth, we also see less variability in growth rates for team advisors than for sole practitioners, with the variation of growth rates for teams being 8.5% compared to 10% for sole practitioners. This consistency suggests that team members are perhaps more likely to hold one another accountable for growth.

Median Annualized Growth from 2013 - 2015



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WHEN DOES IT MAKE THE MOST SENSE TO CONSIDER WORKING AS A TEAM?

As we have discovered, the benefits of working in a team are numerous: higher levels of client retention, higher average client assets, and deeper relationships. While a team arrangement might not be best for everyone, creating a better experience for clients and achieving faster growth are important enough outcomes that most should at least consider working in a team at some point in their career. The question is: when is it most economically attractive to move from a sole practice to a team?

To address this question, we looked at the differences in growth rates across various advisor sizes (for teams, the advisor size would be that of the individual team member, not the team as a whole). The data clearly shows that at effectively all asset sizes, team advisors grow faster than sole practitioners. So the best time to form a team is right now. Interestingly, the data reveal a 'sweet spot' where the growth rate of teams furthest outweighs the growth rate of sole practitioners: For advisors at or approaching \$150m - \$200m in assets who are not currently working as part of a team, now is a terrific time to think about taking on a partner.

Median Annualized Two Year Revenue Growth



If you are already practicing as a team, when should you consider adding additional members? If we look to common practice, it is relatively rare to add a third team member at any asset size. In fact, 53% of books managing as much as \$600m - \$800m in client assets still have only two team members. Those that do take on a third team member tend to do so around \$200m in assets, and most fourth team members join around the \$600m asset level.

How Teams are Constructed

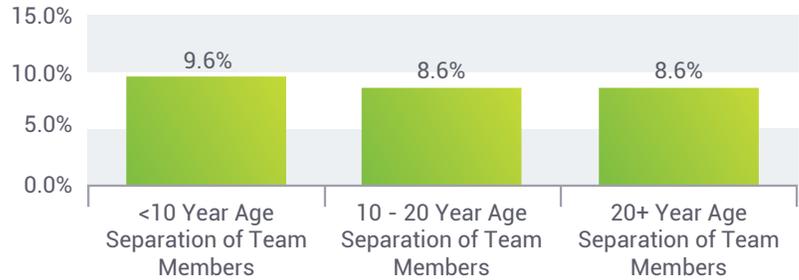


WHAT TYPES OF TEAM RELATIONSHIPS ARE MOST SUCCESSFUL?

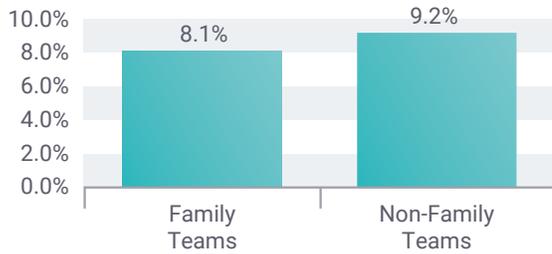
By just about every measure that matters, team advisors outperform sole practitioners. With that in mind, we turn our attention to the composition of teams. In choosing a team member, and provided you have some discretion, what type of partner should you seek to maximize your odds of success?

We looked first at the age difference of team members. As it turns out, teams with members closest in age grow the fastest.

Median Revenue Growth



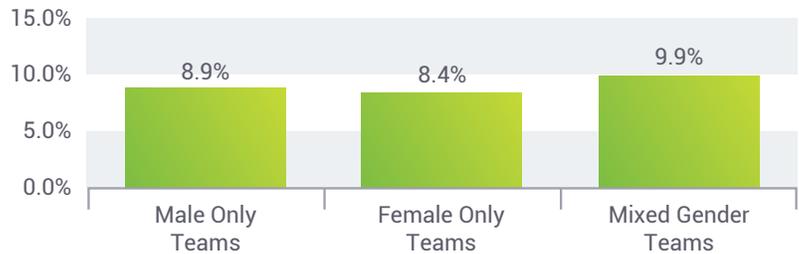
Median Revenue Growth



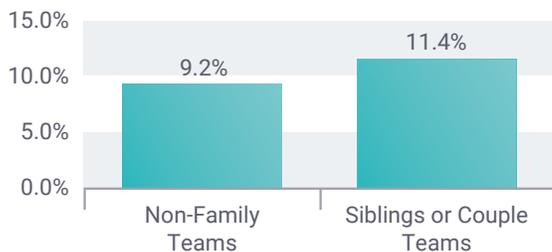
Family teams are less growth oriented than non-family teams, with average annualized growth rates of 8.1% compared to 9.2%.²

Entirely female teams grow the slowest, followed by all-male teams; the most effective partnerships have both male and female team members.

Median Revenue Growth



Median Revenue Growth



By combining all attributes, we see one of the most successful profiles of teams: men and women, similar in age, with the same last name. While this group may include teams of siblings (brothers and sisters), we can safely assume that most teams in this category are husbands and wives. These teams grow at a rate of 11.4% compared to all other teams at 9.2%. Turns out your partner in marriage may just be your most effective partner at work.

²We were presumptuous in assuming that advisors who operate in a team and share a surname are related in some way – even by marriage.

CONCLUSION

Teams are more prevalent than ever in retail wealth management, with the majority of financial advisors working in some sort of a team arrangement. And both firms and advisors are enjoying the benefits: accelerated growth, improved client experience, and built-in succession planning.

Perhaps the most important conclusion of our research is why teams are successful. Teams grow faster than sole practitioners, not evidently through the magic of ‘synergy’ or through division of labor. They grow because they are more likely to do the things that drive growth - the fundamentals. Teams are more likely to be the primary advice provider to their clients. Their clients have more invested and stay longer. Teams are more likely to work with couples, create deeper relationships, and focus on a narrower set of relationships. Because all of these behaviors lead to growth⁵, it should come as little or no surprise that teams grow faster.

Interestingly, nothing holds a sole practitioner back from doing all these same things, and many do them. But team members, it appears, are more likely to hold one another accountable, and have the discipline to focus on the things that matter.

For managers and executives, the case for teams is compelling. Make that case to your advisors. Invest in your practice management and branch leadership to help advisors build effective teams. Design compensation plans that reward advisors to work in teams. If teams aren’t working, help them take a look at their fundamentals. Growth may be inhibited not by the wrong partner, but by the wrong focus.

For advisors, if you haven’t considered working in some sort of a team arrangement, you should. Our study shows that teams are better for clients, and better for you. This is not a decision that should be taken lightly – but the majority of your time should be spent determining with whom, not whether, to form a team. Not all teams will be successful, but our data is conclusive - advisors who choose to work in teams are more likely to be part of something bigger.

Not All Teams are Created Equal

Our data and analysis are conclusive: In the retail wealth management industry, teams outperform sole practitioners. That said, managing your practice as a team does not guarantee success. Looking at the top and bottom quartile performance of teams for a series of performance metrics reveals some dramatic differences:

- ▶ The top quartile³ of teams averaged 20% of small household⁴ relationships, while the bottom quartile averaged 58%.
- ▶ The top quartile of teams averaged 72% fee-based assets while the bottom quartile averaged 13%.
- ▶ The top quartile of teams averaged 96% client retention (\$250k+) while the bottom averaged 87%.

And perhaps most importantly, forming a team is not an automatic path to breakthrough growth. Over the last two years, the top quartile of teams grew by, on average 22% while the bottom shrank by 3%. Clearly, there is more to making a team successful than just joining one.

Teams grow faster than sole practitioners and they grow because they are more likely to do the things that drive growth - the fundamentals.

³Top quartile as defined by the measure – so for small household relationships, the top 25% of teams, in terms of small household relationships.

⁴Households with less than \$250k invested.

⁵PriceMetrix Research: Moneyball For Advisors, 2012.



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