



# Monitoring Industry Success

## Preliminary results from the *2008 Moss Adams Financial Performance Study of Advisory Firms*

By Dan Inveen, CFA®

### Expansion Continues

By every measure, advisory firms experienced healthy business expansion in 2007. The typical firm grew its client base by 9 percent. Growth in assets under management (AUM) doubled, at 18 percent, fueled not just by new clients but by firms gaining a greater wallet share from existing clients. Revenue growth topped all indicators, jumping 22 percent during 2007, following an 18-percent increase experienced by these same firms one year prior (figure 1).

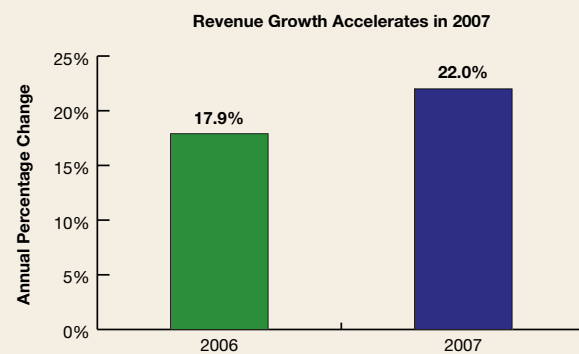
These findings come from our latest annual report, the *2008 Moss Adams Financial Performance Study of Advisory Firms*. Since 1992, Moss Adams has conducted 14 of these detailed performance benchmarking surveys. The 2008 effort, sponsored by Genworth Financial Wealth Management, had more than 700 independent advisory firms providing survey responses between February and April 2008. The resulting data and analysis provide a comprehensive review of the state of the industry as well as a valuable perspective for firms to gauge their own success against their peers.

New clients, new assets from existing clients, and improved retention all helped offset whatever effects market depreciation may have had in the latter half of 2007. This year's participating firms reported a 20.2-percent growth in AUM during 2007. As a point of comparison, the Russell 3000 broad market U.S. equity index rose just 5.1 percent during the same period. The difference between equity market growth and advisor AUM widened considerably in 2007 relative to 2006 and is expected to continue widening in 2008.

Figure 2 shows in more detail the dynamics of asset growth for the industry in 2007, which specifically measures the small contribution of market performance relative to the very impressive gains from simply handling more assets from more clients. When compared with past years, assets lost from distributions and from lost clients are declining as well. Not only are more clients forming relationships with independent advisors, but these relationships are increasingly "sticky."

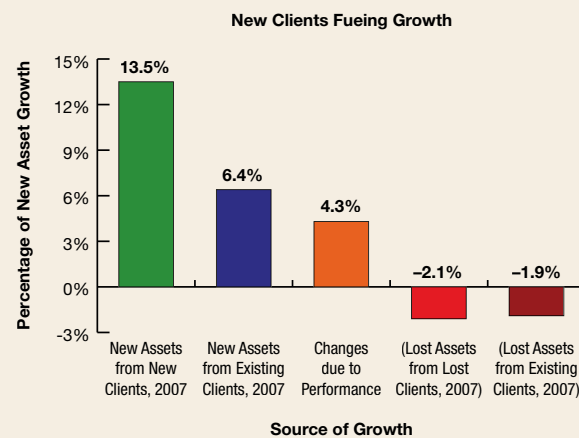
While more clients and more AUM are leading to more revenue, firms also are benefiting from an improved ability of their professionals to support revenue. Productivity, in terms of median revenue per professional, reached \$427,000 in 2007—more than twice the ratio for firms participating in our survey just four years ago. As a result, earnings, as measured

**FIGURE 1: MEDIAN FIRM REVENUE GROWTH RATES, 2006 AND 2007**



Source: Moss Adams LLP. 2008 Moss Adams Financial Performance Study of Advisory Firms. Sponsored by Genworth Financial Wealth Management.

**FIGURE 2: SOURCES OF AUM GROWTH, 2007**



Source: Moss Adams LLP. 2008 Moss Adams Financial Performance Study of Advisory Firms. Sponsored by Genworth Financial Wealth Management.

by pre-tax income per owner, also were up for the year and have climbed steadily among our survey participants (figure 3). In 2007, the typical firm owner earned \$259,500 in total income (job compensation plus returns from ownership), more than double what was reported by survey participants in 2003.

Despite a threatening bear market for equities, advisors expect 2008 will be another year of strong growth. At the time



of our survey, advisory firms anticipated client numbers to grow at virtually the same 9-percent rate they experienced in 2007. Likely as a result of increased security-market pessimism, expectations for AUM growth were tempered some relative to 2007, but still respectable at 13 percent. Perhaps the strongest sign of confidence in the future, however, is represented by firms' plans to expand staff—the typical firm anticipates increasing staff by 16 percent during 2008. Most hires will be made for professional positions, but technical specialists will experience the greatest percentage increase (21 percent).

**Sound Practice Management Is Key**

Recent market tribulations serve as a sobering reminder for firm owners—sound practice management, not asset appreciation, will be the key for prosperity to continue. In the earlier stages of a firm's development, our data reveal, the best firms demonstrate disciplined client selection and a propensity to automate or outsource noncore functions. As these firms progress, they are able to spend more time on client service, business development, and directly generating revenue. Owners of top-performing and established solo firms, for example, spend 56 percent of a typical day on either client service or business development, compared to 46 percent for other owners.

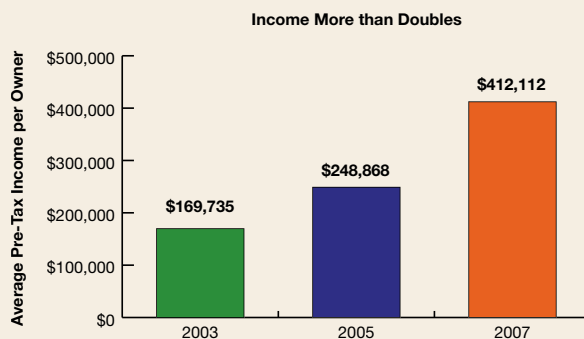
As firms grow, the service set also evolves, but the number of services offered does not necessarily increase. Regardless of development stage, firms tend to offer six or seven services to the majority of clients. The best firms focus on what is core to the firm and its client relationships. Owners ensure that each service is used by a meaningful proportion of clients, is value added to relationships, and is something they can charge for. As a result, top-performing firms, particularly the larger ones, generally price higher and earn greater revenue yield off assets managed. The top 25 percent of market dominator firms, for example, yield five basis points more revenue per dollar of assets managed compared to their peers.

As we have noted in past studies, at every development stage the best firms use more nonprofessional staff to better leverage the time of professionals (figure 4). Further, professionals become increasingly leveraged as firms grow. While the smallest multiprofessional firms (early ensembles) employ an average of 0.9 nonprofessionals for every professional, the same ratio for the largest firms (market dominators) is more than double at 1.9. The greater leverage employed by the larger firms makes a direct contribution toward greater owner income. Income earned by market dominator firm owners is six times that earned by early ensemble owners.

**The Best Is Yet to Come**

The independent financial advisory industry is experiencing prosperity and growth. One of the most exciting aspects of the business is that despite the industry's tremendous

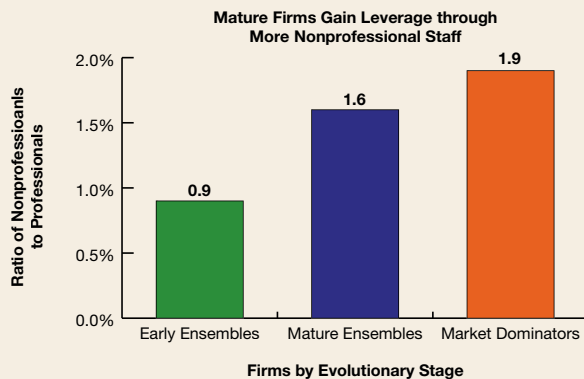
**FIGURE 3: MEDIAN PRE-TAX INCOME PER OWNER AND REVENUE, 2003–2007**



Note: Data prior to 2007 is sourced from previous annual Moss Adams studies. Makeup of participating firms varies from year to year and may impact comparability.

Source: Moss Adams LLP. 2008 Moss Adams Financial Performance Study of Advisory Firms. Sponsored by Genworth Financial Wealth Management.

**FIGURE 4: AVERAGE RATIO OF NONPROFESSIONALS TO PROFESSIONALS BY FIRM STAGE, 2007**



Note: Ensemble firms are multiprofessional firms. Early ensemble firms have less than \$2 million in annual revenue. Mature ensemble firms have between \$2 million and \$5 million in annual revenue. Market dominator firms are ensembles with more than \$5 million in annual revenue.

Source: Moss Adams LLP. 2008 Moss Adams Financial Performance Study of Advisory Firms. Sponsored by Genworth Financial Wealth Management.

success to date, plenty of potential exists for further growth and improvement.

The fact that growth is widespread for both large and small firms indicates that even the largest firms have yet to reach optimal size. In addition, across all categories of firms, the gap between the industry's top-performing firms and others demonstrates the potential for improvements in productivity, efficiency, and ultimately profitability. The best practices of these elite firms provide valuable lessons for others that are working to more fully realize this potential.

While the current flux in performance of the financial markets may be causing advisors concern, forward-thinking


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firms will recognize this as a time of opportunity. The demand for objective financial advice is not going away. The best firms will continue to improve efficiency and effectiveness. Specifically, they will use the months ahead to reinforce the value proposition they offer

clients and reinvest in their businesses to best capitalize on the next growth cycle for securities. The best is yet to come. 

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