

PRACTICE UPDATE **2006**

Increasing Capacity (Doing More with Less)

THIS STUDY WAS CREATED AND CONDUCTED BY:



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CANADA'S NEWSPAPER FOR FINANCIAL ADVISORS

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ABOUT ADVISOR IMPACT

Advisor Impact works with financial services firms to improve productivity and profitability. To that end, the firm provides research, training and tools to help advisors, wholesalers and accountants build a foundation of profitable and loyal clients. With offices in Toronto, New York and London, Advisor Impact works with financial advisors, broker/dealers and investment management firms across North America and the United Kingdom. The company was founded in 1998 and formed a strategic alliance with Moss Adams, LLP (www.mossadams.com) in 2002.

The Company's flagship program, the Client Audit, is a third-party client survey program, designed to help advisors enhance loyalty and increase average revenue among existing clients. Advisor Impact has surveyed tens of thousands of investors, annually, through this program. As a result, the firm has unparalleled insight into how clients view their advisors, their expectations with respect to service, and gaps with respect to products and services.

Advisor Impact offers the following programs for advisors:

The Client Audit is a third-party client survey tool that helps financial advisors gauge client satisfaction and identify specific cross-selling, referral and consolidation opportunities among existing clients.

The Business Success Kit is a practical guidebook and toolbox to help advisors improve practice efficiency and productivity.

Practice Management Workshops address many critical practice management issues to provide advisors with the ideas and tools to streamline their practices, structure effective teams and build for the future.

For more information on Advisor Impact and its programs, visit
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A MESSAGE FROM JULIE LITTLECHILD

Since starting the Practice Update series, I've noticed a very clear trend. Although the math suggests that the average advisor is operating over capacity and is, therefore, unable to meet his or her client contact goals, those same advisors identify "adding new clients" as their primary challenge for the coming year. Somewhere between those two persistent trends, we are faced with a disconnect.

This year's study, however, is all about solutions. If client capacity is a problem, what are we going to do about it? How can financial advisors do more with less and grow more profitably. And while we may be tempted to take the easy, albeit expensive, road and throw more money and bodies at the problem, the long-term solution really starts with structuring a more efficient business.

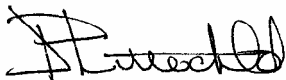
Based on our research and our on-going work with financial advisors, we identified six possible solutions to the capacity dilemma:

- Delegating more effectively
- Improving time management
- Streamlining business processes
- Using technology more effectively
- Refining the client selection process
- Streamlining the investment management/financial planning process

This summary is the most comprehensive publication of the detailed results of the research. In this summary, we'll examine each of those areas and how advisors are working to improve efficiency and, therefore, capacity. The benefits are clear: a positive impact on the bottom line and more time to invest in the loyal clients who have helped to grow your business.

Our thanks go to AIM Trimark and to Univeris Corp. for their support of Practice Update: 2006 and to Investment Executive for their continued contribution to the success of this important study. It would not be possible with the commitment that these firms make to financial advisors, in the way they do business and the initiatives they support.

Sincerely,



President, Advisor Impact

KEY FINDINGS

The goal of Practice Update: 2006 was to assess and reinforce client capacity trends in the industry and then look at the key areas in which advisors could improve efficiency.

It is clear from this (and previous) studies, that advisors are responding to declining profit margins by focusing on growth, primarily through client acquisition. And although they see attracting new clients as a key priority, many of these same advisors are already operating over-capacity, based on their own client contact goals.

In an environment in which advisors are operating over-capacity, there are very few answers to the problem:

- **Denial.** Continue as you are and let some clients fall through the cracks.
- **Change.** Improve efficiency to allow you to manage more clients efficiently, while maintaining the status quo with respect to your service level and target audience.
- **Focus.** Eliminate or transfer those clients who are not profitable and focus on delivering a meaningful level of service to a well-defined target group.

It all starts, however, with “facing the brutal facts of reality”, as Jim Collins notes in his important work ‘Good to Great’. And that is where this study begins. While the study provides us to a wealth of data and insight on practices, it boils down to several basic, but critical findings.

Profitability

- On average, profit margins, at the client level, are quite low.
- Advisors are responding to this challenge by adding new clients.

Capacity

- On average, advisors are operating over-capacity; they are unable to meet their stated client contact goals with existing resources.

Efficiency

- Improved efficiency is the link between allowing advisors to add more clients, while dealing with profitability and capacity issues in the practice.
- Using top producers as the benchmark, improved delegation and client selection are the key drivers of improved efficiency.

And while the data is clear, advisors are possessed of a very high level of optimism for the future of their businesses. While this is a positive trait, it may be detracting from the ability to face those brutal facts.

PARTICIPANT OVERVIEW

Across Canada, 1,060 financial advisors took part in Practice Update: 2006 between April and June, 2006. These advisors crossed all channels and are geographically well-represented.

AFFILIATIONS:

- 61% of respondents are MFDA advisors
- 39% of respondents are IDA advisors

MFDA Advisors

	2004	2005	2006 (est.)	2008 (est.)
Assets under management	\$21,397,000	\$24,884,000	\$29,976,000	\$39,268,000
Gross revenue	\$216,563	\$283,749	\$308,323	\$419,881
Net revenue	\$159,732	\$186,613	\$235,027	\$308,370
Client households	306	317	336	358

IDA Advisors

	2004	2005	2006 (est.)	2008 (est.)
Assets under management	\$52,304,000	\$62,842,000	\$71,220,000	\$99,115,000
Gross revenue	\$486,342	\$565,894	\$660,721	\$913,695
Net revenue	\$234,664	\$277,281	\$332,621	\$465,575
Client households	238	245	240	268

Note that because there is such a wide range of businesses in this industry and, therefore, represented in this study, the medians can be substantially lower. For example, median assets for MFDA advisors was \$15 million, in 2005, and \$48.4 million for IDA advisors in that same time period.

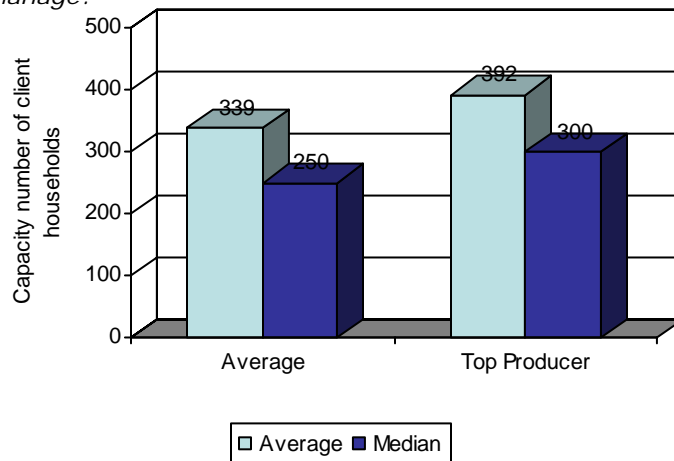
THE PROBLEM: PRACTICE CAPACITY

For the purposes of this study, practice capacity is defined as the number of client households that an advisor can effectively manage with current resources. Effective management is simply defined as the advisor's ability to meet his or her stated client contact goals.

A majority of financial advisors indicate that they know the number of clients that they can manage with current resources. In general, these estimates align with the number of clients that are currently being managed. When we dig deeper into the numbers, however, we find that the situation is not as positive and that many advisors would be unable to meet their client contact goals for all clients, with current resources and, importantly, current processes.

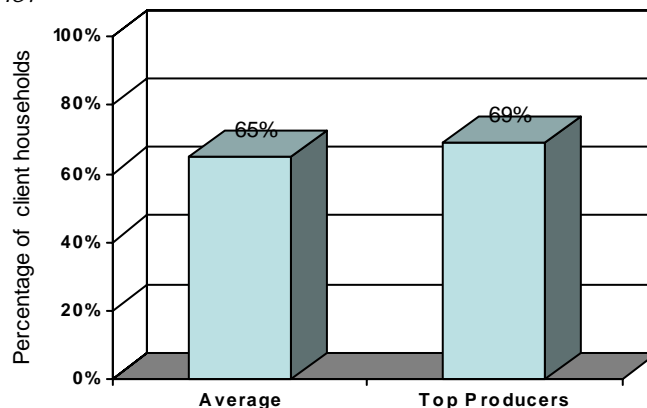
Sixty-eight percent of advisors say that they know their practice capacity, indicating they can manage an average of 339 client households (median is 250) with top producers indicating that they have capacity for about 50 more households. Note that the average advisor is currently managing 285 client households (median is 202).

Q: How many client households do you believe that you (and your current team) can effectively manage?



Despite this optimism, there is evidence that some clients are falling through the cracks. On average, advisors met with 65% of their clients (either face-to-face or by telephone) in the last 12 months.

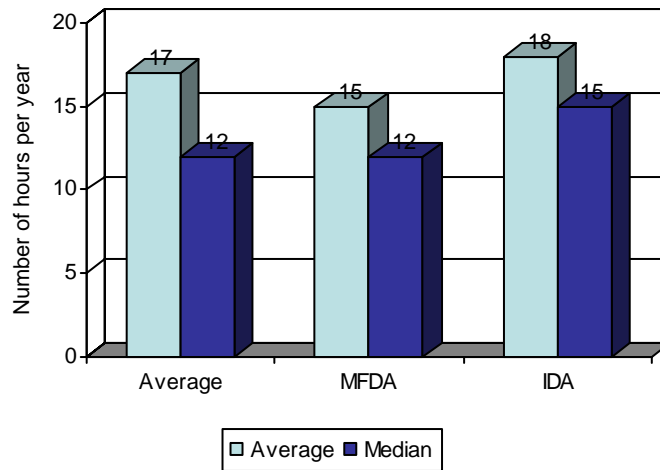
Q: In the last 12 months, with what percentage of your clients did you meet, either face-to-face or by telephone?



In fact, based on stated client contact goals, advisors would need to invest about 80% of their time managing just their top clients. This excludes 80% of client relationships and all activity to build and manage the business, which suggests clear capacity issues in this industry.

We can fully understand this assessment by looking at the component parts of the analysis, starting with the time that advisors estimate they invest in top client relationships.

Q: How many hours a year would you estimate that you invest in a single top client relationship (include all meetings, preparation and reactive time)?



Next, we look at the number of 'productive weeks' that are available in a typical year. We calculate productive weeks as 52 weeks minus time spent on holiday or time spent away from the office. These are the weeks during which actual client activity can take place (by the advisor). Advisors take a median of four weeks holiday and another two weeks out of the office for such things as education. As a result, we have, on average, 46 productive weeks in a year.

Next, we need to understand how many hours a week are available for client management. In this year's study, advisors indicated that they could invest an average of 44 percent of their time in client relationships, leaving the bulk of time to build and manage the business. Compared to other years, we find this number quite low and are using a more conservative 60 percent in this analysis. Remember, however, that it is more important that you do this type of analysis for your business, rather than focusing on industry averages.

Optimal Capacity

In the first case, we look at optimal capacity, which is a theoretical assessment that considers the number of top clients you can manage in your practice, with current resources. Of course, the average advisor does not only work with top clients, but this analysis is important because it provides you with deeper context for understanding your business.

Number of hours worked per week	45
Number of productive weeks available	45
Total hours available per year	2025
Total hours available for clients per year (60% of time)	1215
Number of hours to manage a top client	17
Optimal client capacity	71

It is clear that if you offer a more comprehensive level of service, there will be a substantial impact on capacity. For example, many wealth managers indicate that they invest 25 hours or more in a relationship, cutting optimal capacity in half.

Available Capacity

We can get a different picture of the capacity issues if, instead, we look at the time that must be devoted to managing top clients. The residual is what is left to manage all other clients and to grow the business.

Average number of clients	285
Number of top clients (estimated at 20%)	57
Hours to manage a top client	17
Total hours to manage top clients	969
Total hours available for clients (see above)	1215
Percent of available client time devoted to top clients	80%

It might seem reasonable to invest 80% of client time in top clients, as they may well represent the same percentage of assets. However, we are left with the challenge of managing the other (average of) 228 clients in 20% of time. It is not uncommon to see much higher client satisfaction ratings among top clients¹, which is the likely result of focusing time and energy on this group. The challenge of managing the rest of the business (prospecting, planning and general management), however, is very real.

While the math suggests that there are issues with capacity, this does not typically translate into a major concern for advisors, a fact that we might read as a high level of optimism. Despite capacity concerns, a majority of advisors select 'attracting new clients' as their primary challenge for their businesses. While we see less agreement on the other challenges, attracting new clients is quite clearly considered one of the biggest for the industry. It is interesting to note that in the work that Advisor Impact does analyzing individual practices, the majority of advisors say that they are not optimizing their existing client relationships.²

¹ Advisor Impact. Client Audit Research for 2006.

² Advisor Impact. Business Assessment Research

Q: What do you consider to be the three top challenges to your business going forward?

	Percentage of clients selecting among top three challenges
Attracting new clients	61%
Balancing work/family life	36%
Time management	36%
Managing existing clients	35%
Improving practice profitability	35%
Dealing with compliance	25%
Recruiting good team members	22%
Getting compensated for services provided	17%
Managing a team	14%
Identifying a successor for the business	9%
Managing cash flow	4%

THE PROBLEM: PRACTICE PROFITABILITY

We believe that part of the reason that advisors continually look to grow the business through client acquisition is because many existing clients are not very profitable and some, in fact, are unprofitable. Faced with low levels of profitability, advisors may look to increase the top line (e.g. add new clients), although sometimes the situation demands a bottom-line response (e.g. improve client profitability).

Understanding profitability demands that we frame the issue correctly. The vast majority (if not all) financial advisors are profitable because they earn more than they spend in the business. It is important to note, however, that positive profitability is, sometimes, achieved by altering advisor income. That is, the business may not be profitable if the advisor had established a baseline salary expectation that had to be met as is the case in other businesses.

There are more interesting trends, however, when we focus on client profitability, rather than practice profitability. In this case, we are looking at the relative profitability of a top client vs. an average client vs. a low priority client. If we allocate all costs of the business, including the time cost of the advisor, we often find that some clients are extremely profitable and some clients are losing money within the same business. This variable profitability negatively impacts overall practice profitability.

When it comes to profitability, averages mean very little and that is simply because both revenue and cost vary substantially from one client (or client segment) to another. Let's look at two sets of findings to highlight that issue.

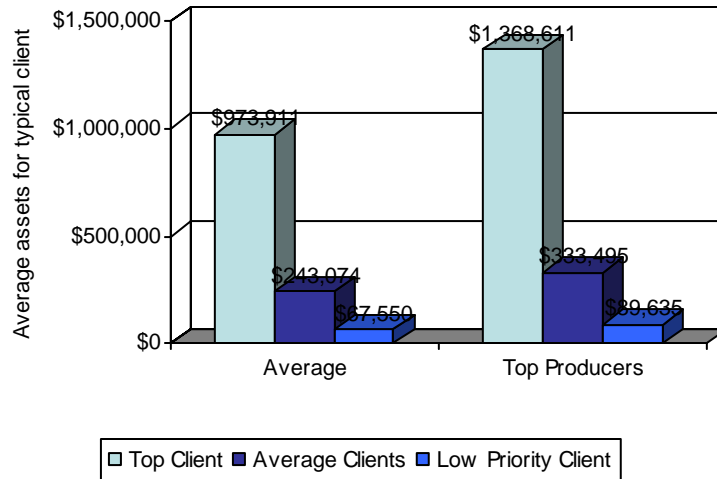
First, we find that if we treat all clients in the same manner, overall profitability is quite low.

	All respondents	MFDA	IDA
Assets under management	\$39,575,000	\$24,884,000	\$62,842,200
Gross revenue	\$388,321	\$283,749	\$565,894
Net revenue	\$216,285	\$186,613	\$277,281
Expenses	\$65,994	\$75,086	\$56,224
Number of client households	285	317	245
Profit (or income) per client, before advisor is paid	\$527	\$352	\$902

The question is this. What level of service can you provide for this level of income? While the numbers differ rather substantially by channel, based on a number of factors, including average assets per client and different payout structures, the question remains valid for all advisors.

Averages, however, are not very helpful in this circumstance because the size of clients (and the associated costs) vary so greatly within a typical client base. As you can see from the graph below, there is a substantial range that could make top clients very profitable and small clients very unprofitable, depending on the service provided.

Q: Please indicate the average assets/household for a single client in each of the following categories.



We believe that a business can be profitable focusing either on smaller clients or focusing on larger clients. Small clients are not necessarily unprofitable³. However, the associated infrastructure (team, technology, process) and service levels must reflect the income generated by those clients. It is for this reason that segmentation and tiered service levels are so critical in this business.

More data on practice profitability is provided at the end of this report.

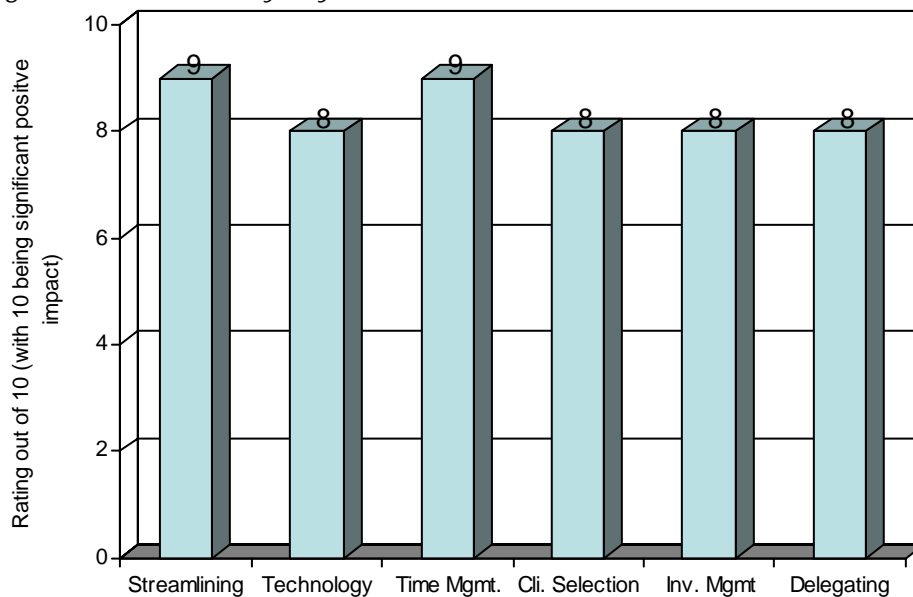
³ For more information on the link between overall profitability and a targeted client base, see annual reports published by Moss Adams, through the FPA. The latest report is available through the Financial Planning Association website.

THE SOLUTION: FOCUS ON EFFICIENCY

Practice efficiency is the link between the collective goal to grow businesses, while dealing with capacity and profitability issues. By focusing on efficiencies in the practice we can reduce the cost of client management, limit the resources necessary to service clients effectively and increase our overall capacity. Based on our on-going work with financial advisors, we identified six possible areas in which advisors can increase efficiency. This study polled the industry in each of those six areas.

In general, advisors indicated that improvement in any of the six areas would have a significant and positive impact on their businesses, as the graph below demonstrates.

Q: *There are many ways to increase capacity and improve efficiency in a business; below are six possible approaches. Please rate each, based on your assessments of its impact on increasing the overall efficiency of your business.*



And how do advisors rate their own performance on these and other indicators of practice efficiency. In a word – neutral.

Q: *Please rate the extent to which you agree or disagree with the following statements.*

	Rating out of 5 ⁴
We have automated most routine business processes in the practice.	3
My investment management/financial planning process is sufficiently streamlined/efficient.	3
We use technology effectively in our practice.	3
I delegate most tasks that someone, other than me, can manage.	3
I manage my time effectively.	3

⁴ 5 is equal to 'strongly agree' and 1 to 'strongly disagree'

I only work with clients who meet my client selection criteria.	3
Our office would continue to run effectively if my assistant was ill for a long period of time.	3
Our office runs effectively when I am away, however revenue declines substantially.	3
Our office runs effectively when I am away, with limited negative impact on overall revenue.	3
I actively promote a team approach to my clients.	3

Streamlining Key Processes

Advisors can improve efficiency by streamlining routine processes in the practice, including such things as welcoming new clients, structuring or updating financial plans or setting client meetings. A streamlined process is one for which each key step is defined, including tasks, timelines, responsibilities and any associated templates.

We found that advisors consider streaming process to be a very important aspect of improving efficiency. There is a slight disconnect, however, between having a process and documenting that process. For example, many advisors have defined specific processes in the practices, but a minority has documented those in an operations manual. Similarly, many advisors have set goals for client contact, but a smaller percentage has automated those same client contact goals. These disconnects simply represent opportunities to improve in an area in which advisors are already making inroads.

A majority of advisors have standardized many of the basic processes in a practice, as you can see in the table below.

Q: Which, if any, of the following processes do you have in place?

	Percentage of advisors who indicate they have standardized this process
Developing/presenting financial plans	69%
Setting client meetings	68%
Thanking clients for referrals	66%
Welcoming new clients	63%
Following-up on client meetings	61%
Updating financial plans	55%
Following-up on prospect meetings	54%

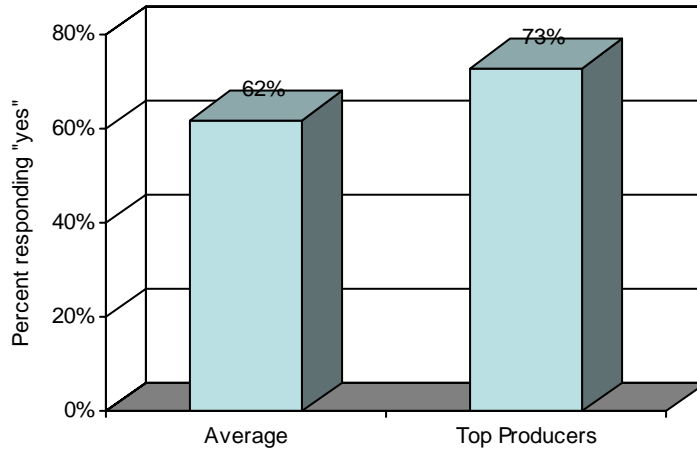
Despite these positive results, only 36 percent of advisors say that they have a written operations manual in place, something that would help to train new employees or provide back-up if a team member was away from the office. Standard templates (e.g. letters or forms) can be an important part of such processes and there is evidence that advisors are creating an increasing number of templates to help streamline service delivery, as the table below suggests.

Q: Which, if any, of the following standardized forms/templates do you have in place? Select all that apply.

	Percentage of advisors who indicate they have this template standardized
Risk tolerance questionnaire	80%
Data gathering form for clients (not KYC)	70%
Data gathering form for prospects	64%
Investment policy statement	59%
Welcome letter/package for new clients	51%
Follow-up letter – client meetings	38%
Welcome/marketing package for prospects	33%
Follow-up letter – prospect meetings	28%

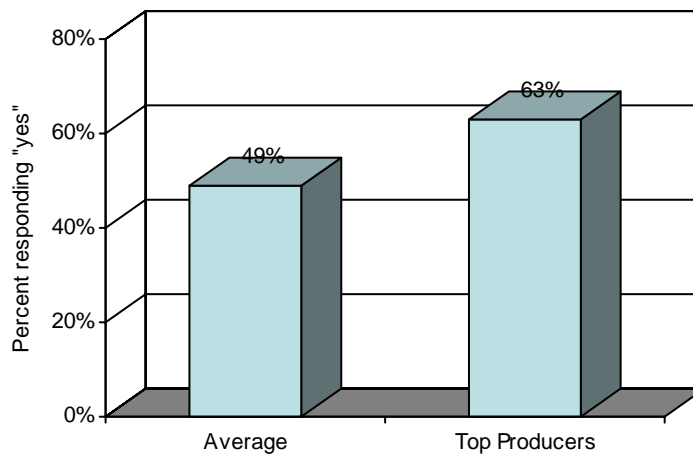
Direct client contact is another key area that advisors can standardize, in order to ensure a consistent level of service and to improve efficiency. As with most statistics, one can focus on the good or the bad. In this case, the good news is that almost two thirds of advisors have defined goals for client contact. The bad news is that almost 40 percent of advisors are dealing with client contact on an ad hoc basis. Note, however, that top producers are more likely to establish clear goals for client contact, a telling fact about how their businesses are run.

Q: Do you have a defined goal for the number of plan/portfolio reviews you will hold with your clients each year (e.g. quarterly review meetings for top clients)?



And while defining client contact is critical, automating those goals is the link between a goal and actual activity. A smaller percentage of advisors has automated those contact goals.

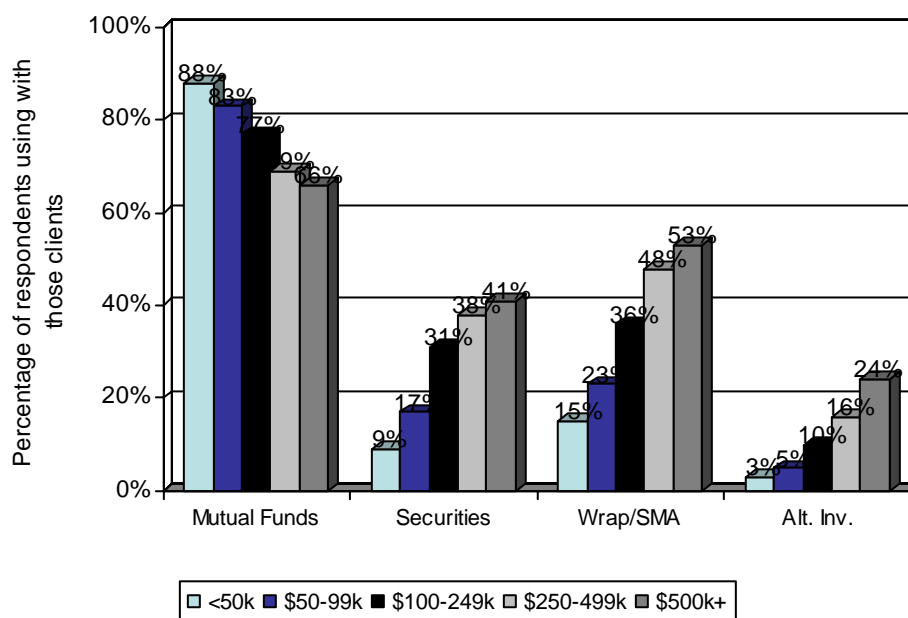
Q: If yes, are your direct contact goals for the number of plan/portfolio reviews you will hold with your clients each year (e.g. quarterly review meetings for top clients)?



Streamlining the Investment Management Process

It is clear that advisors use product selection both to meet the needs of different types of clients and to streamline the investment management process. The graph below shows the products that advisors use with clients at different asset levels. Not surprisingly, we see declining use of mutual funds and increasing use of managed product as we move from smaller to larger clients. While there would be some obvious differences between MFDA and IDA advisors, the trends remain generally the same. The use of segregated funds and GICS, when they are used, is fairly consistent across clients.

Q: Please select the products you use, based on the size (assets) of the client.



The graph above simply refers to the use of different products; however the table below provides better insight into the relative use of these products in a typical business, focusing on the breakdown of gross revenue.

	% Gross Revenue in 2005
Commissions/trailers on mutual funds	46%
Commissions/trailers on insurance products	14%
Commissions on securities/bonds	11%
Fees from wraps/Separately managed accounts	11%
Commissions/trailers on segregated funds	9%
Other	6%
Hourly fees/retainers	2%
Commissions on alternative investments	1%

We can dig further into these numbers to get a better understanding of how the investment management process is changing. In the following tables we look at anticipated change in the next three years, split by channel.

MFDA Advisors

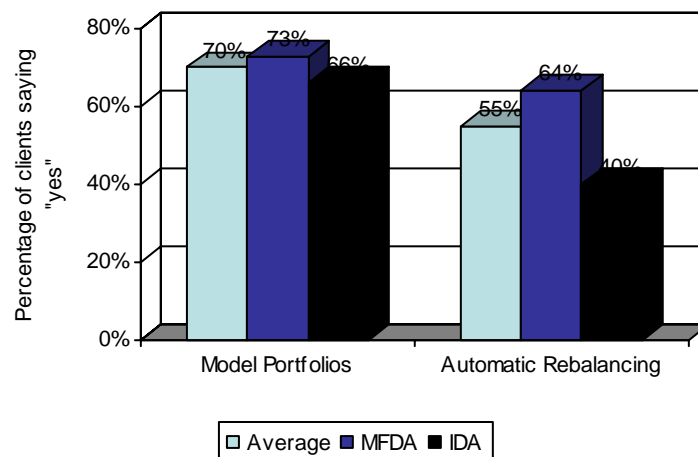
	% Gross Revenue	
	2005	2008 (expected)
Commissions/trailers on mutual funds	55%	46%
Commissions/trailers on insurance products	19%	18%
Commissions/trailers on segregated funds	13%	12%
Fees from wraps/Separately managed accounts	6%	11%
Other	6%	5%
Hourly fees/retainers	2%	2%
Commissions on alternative investments	1%	1%
Commissions on securities/bonds	0%	4%

IDA Advisors

	% Gross Revenue	
	2005	2008 (expected)
Commissions/trailers on mutual funds	34%	35%
Commissions on securities/bonds	30%	17%
Fees from wraps/Separately managed accounts	20%	25%
Other	5%	6%
Commissions/trailers on insurance products	4%	8%
Commissions/trailers on segregated funds	3%	6%
Hourly fees/retainers	1%	2%
Commissions on alternative investments	1%	1%

On average, advisors say that about 44% of revenue is recurring, providing a reasonably strong base of on-going revenue, however many advisors are clearly trying to increase that percentage. Perhaps one of the most significant trends is the anticipated decline in revenue from individual securities among IDA advisors. Based on responses in this study, the average IDA advisor actively covers an average of 44 individual securities (median is 25 securities). Across all advisors, five mutual fund families are recommended, representing an average of 17 individual funds.

Q: Which of the following do you use?



This same trend is, obviously, seen in the breakdown of assets for the average advisor.

MFDA Advisors

	2005	2008 (expected)
Mutual funds	65%	58%
Segregated funds	17%	17%
Individual securities/bonds	1%	1%
Wraps/Separately managed accounts	7%	12%
Alternative investments	1%	1%
GICs	7%	6%
Other	2%	3%

IDA Advisors

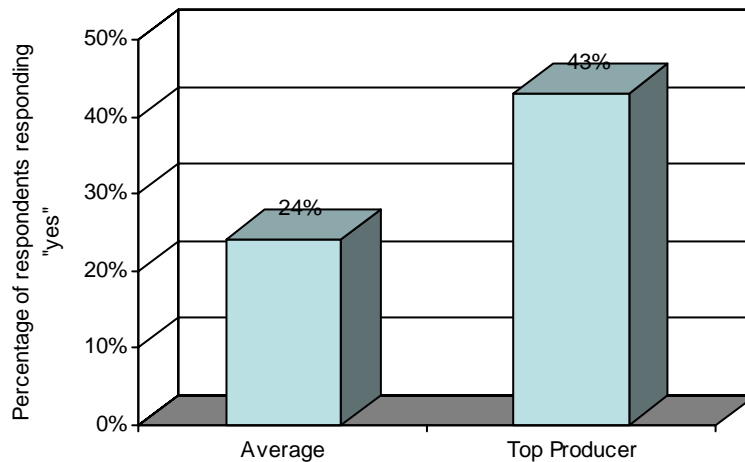
	2005	2008 (expected)
Mutual funds	36	32
Segregated funds	3	3
Individual securities/bonds	34	30
Wraps/Separately managed accounts	17	26
Alternative investments	2	2
GICs	5	4
Other	2	3

Improving Delegation

Effective delegation is a clear point of difference among top producers and, as a result, an important way to improve practice efficiency. For the purposes of this study, delegation includes both the extent to which advisors use team members to carry out specific tasks as well as the structure of the team (e.g. whether there is a junior advisor). Top producers have larger teams, hire junior advisors more often and delegate more functions. Despite that, most advisors indicate that about a quarter of their time is spent on activities that should be delegated.

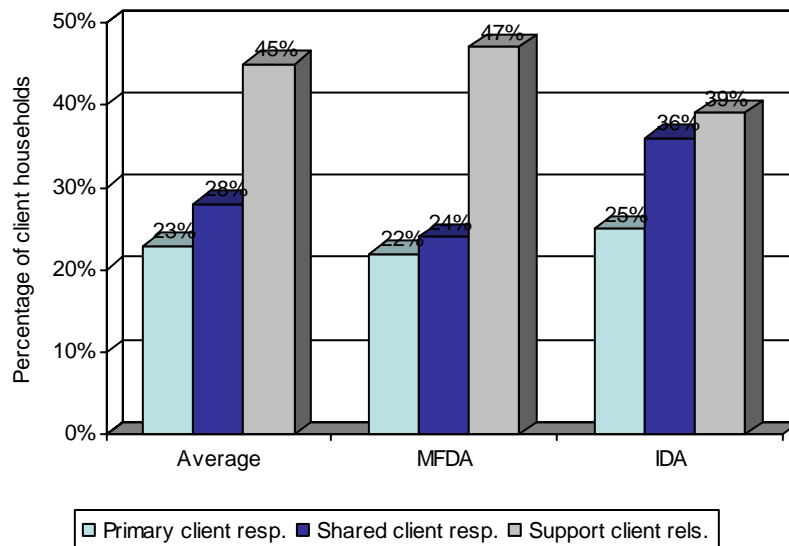
The average advisory team has three members (including the advisor) with a median of two members; the size of the team is growing. That jumps by one team member for top producing teams. With respect to team structure, you can see from the graph below that top producing advisors are much more likely to work with a junior to support client management.

Q: Do you work with a junior advisor?



When it comes to defining the role of the junior, responses are split. While a majority of advisors use a junior for behind-the-scenes support with existing clients, others transfer full or partial client management responsibility for some clients.

Q: For what percentage of your clients does your junior have:



Delegation is, of course, critical to both increasing capacity and improving efficiencies. Many advisors are delegating routine activities but note the clear decline beyond the first three activities, when we compare the average to top producers. We can see that top producing advisors excel in this area, tending to delegate more often, as well as delegating a broader range of activities to the team.

Q: Which, if any, of the following routine, functions do you delegate?

	Percent of advisors who delegate: Average	Percent of advisors who delegate: Top Producers
Answering calls that come into the practice	75%	88%
Setting client meetings	63%	80%
Business processing	62%	73%
Setting prospect meetings	40%	51%
Product/service research	36%	42%
Updating financial plans	26%	39%
Calling clients regarding suggested or routine changes in their holdings/plan	26%	35%
Creating financial plans	24%	38%
Calling clients regarding a new issue/product/service	23%	29%
None of the above	21%	3%

Many advisors indicate that they do not feel they can delegate more activities to other team members because clients will not accept it. Advisor Impact's research shows that 58 percent of clients are actually comfortable speaking to someone on the team about their plan or portfolio, other than the senior advisor. Those advisors who have succeeded in expanding delegation have specifically focused on communicating the benefits of a team approach, although use a variety of different methods to achieve that goal.

Q: Which, if any, of the following have you implemented to promote a team approach?

	Average	Top Producers
Have assistants follow-up directly with clients after meetings	50%	71%
Included team members in client meetings	49%	64%
Developed/distributed a team profile outlining roles and responsibilities	43%	58%
None. I don't promote a team approach.	24%	7%

Once again, note the substantial difference in top producer activity when it comes to promoting a team approach.

Despite the inroads that advisors are making in the area of delegation, the average respondent to this study said that he/she was spending about 25 percent of time on activities that could, or should, be delegated. So what does that mean? Using some of the data provided in other areas of the study, we might draw the conclusion that that translates into nearly \$300,000 in gross revenue because delegation creates the capacity for about 28 top clients, on average.

Number of hours worked/week	45
Number of hours spent on activities that should be delegated (25%)/week	11.25
Total hours/year that could be spent on other client activity	506
Hours required to manage a top client/year	17
Number of additional top clients that could be managed/year	28
Total assets represented by 28 top clients (at average of \$974,000/client)	\$27,272,000
Gross revenue (at average turn rate of 1%)	\$272,720

The question, then, is not can you risk delegating more activities, but can you risk not delegating more activities?

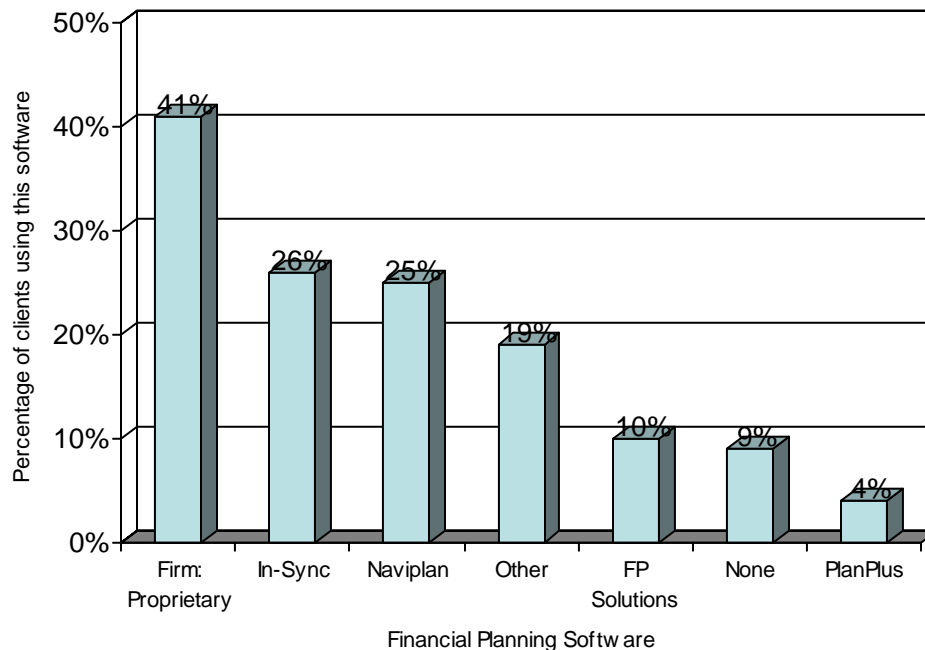
Using Technology More Effectively

Technology is clearly seen as an important aspect of improving efficiency and may be tied directly back to the section on streamlining routine processes. While most advisors have substantially improved their use of technology, many feel that they would require more training to make full use of the tools that are available. The study, at a fairly simple level, looked at the basic tools that advisors were using in their practices, from financial planning software to e-mail.

In a world in which e-mail is one of the most commonly accepted means of communication, many clients are still not comfortable receiving information from their advisors electronically.⁵ About a third of advisors, however, say they use e-mail to substitute for some direct client contact, thereby reducing the number of meetings they have. A majority simply use e-mail as a complement to direct contact.

Most advisors indicated that they used financial planning software, with only 9 percent of advisors saying they did not use any. Note that on technology used, we see limited differences among top producers, compared to the average.

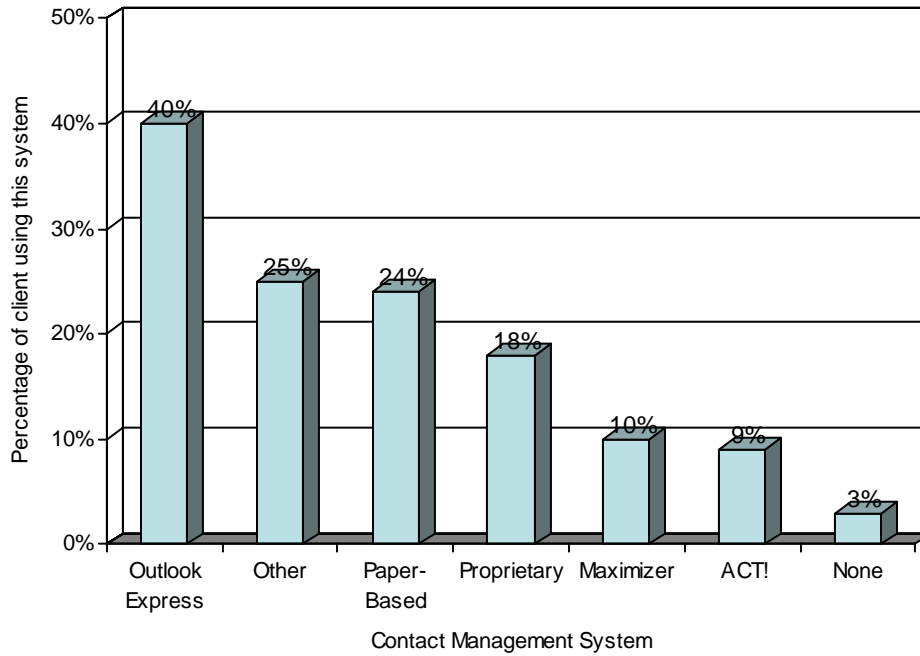
Q: Which, if any, financial planning software programs do you use?



And while effective client contact is seen as one of the most critical aspects of running a business, it is perhaps surprising to note that about 20 percent of advisors rely on pen and paper to track their activities.

⁵ Advisor Impact. Client Audit Research.

Q: Which, if any, of the following programs do you use to schedule your activities?



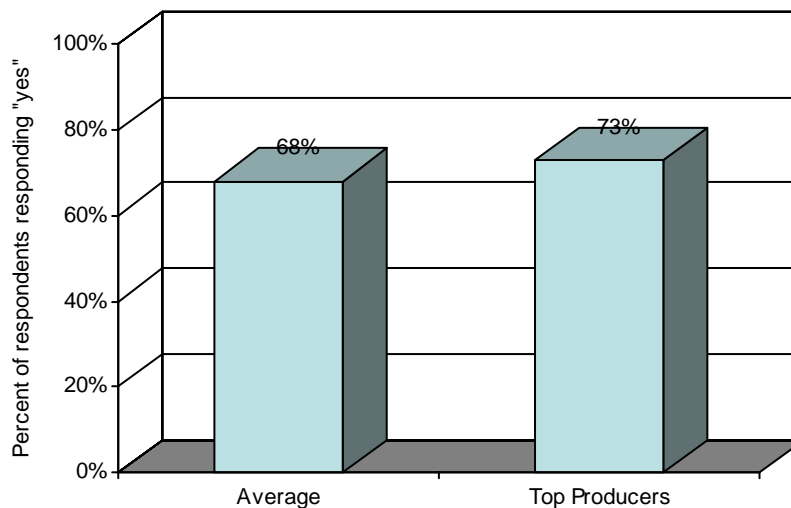
The choice of program is often driven by head-office but we can easily see differences between those advisors who use a standard package such as Outlook (which has strong scheduling capabilities but very limited contact management capabilities), those advisors who use the firm endorsed package and those who stick to a low-tech solution.

Defining the Client Selection Process

Common sense (and a wealth of business research) tells us that structuring a business around a defined target group is the most profitable approach. In the case of advisors, this kind of focus demands that we build a business that meets the needs of specific clients, charge accordingly (via fees or minimum assets) and develop the systems to deliver efficiently.

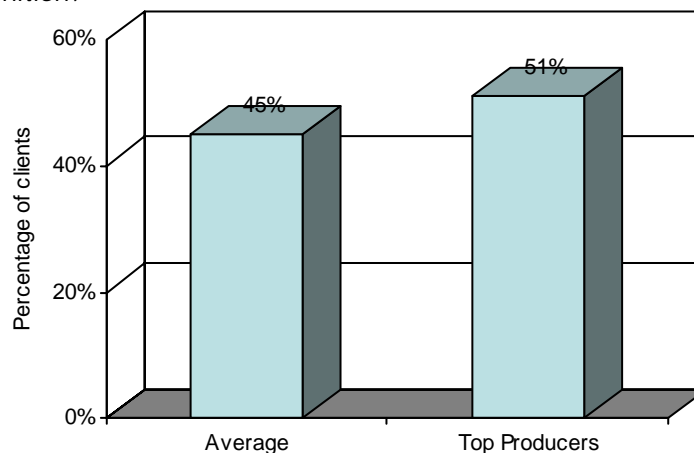
A majority of advisors say that they have a clear definition of their ideal client. However, there is some indication that there is a disconnect between 'having a definition' and 'applying that definition' to the new business development process. In addition to effective delegation, client selection is another area in which we can see some clear differences between average and top producing advisors.

Q: Do you have a clear definition of your ideal client, which may include such things as investable assets, income, profession or personality type?



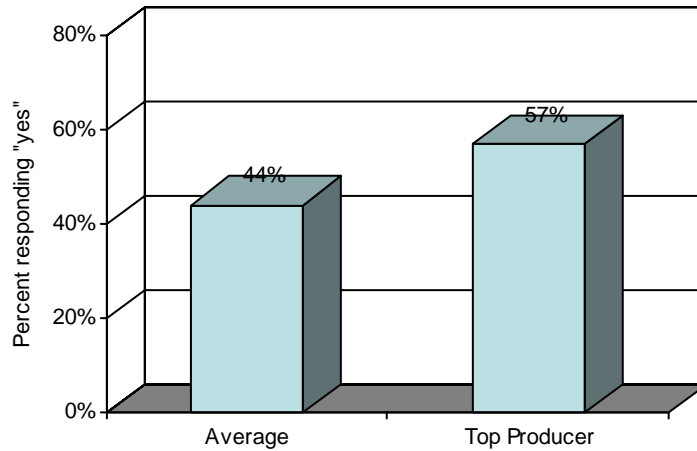
In some cases, advisors may have defined their ideal client later in their careers, resulting in a higher percentage of clients who do not fit that definition, than might otherwise be the case. Barring that explanation, it may be the case that advisors are not strictly enforcing that definition, resulting in a relatively low percentage of clients in the 'ideal' category.

Q: What percentage of your clients would you estimate fall into your 'ideal' client category, based on your definition?



A minimum asset level is typically included in the definition of an ideal client, but not always. Top advisors and IDA advisors are more likely to have defined asset minimum.

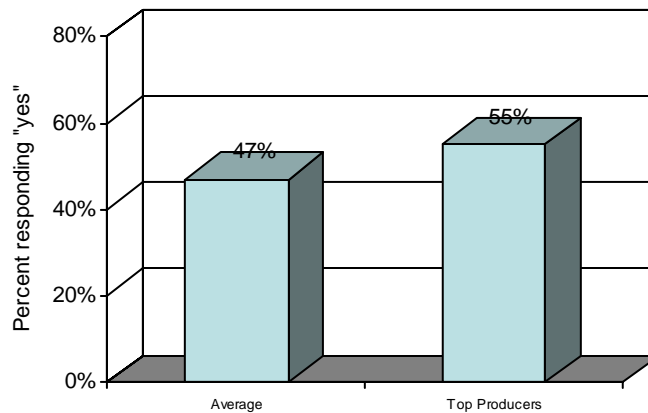
Q: *Do you set an asset or revenue minimum?*



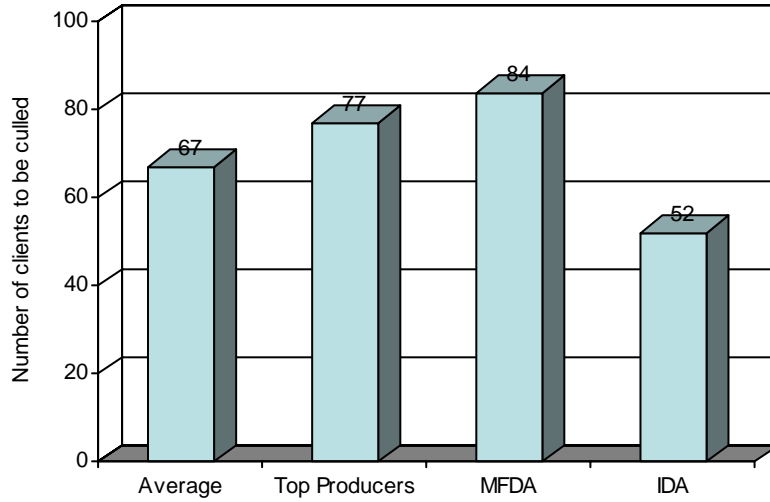
For MFDA advisors that minimum is, on average, \$146,000 (median is \$100,000) and for IDA advisors that minimum is, on average, \$220,000 (median is \$150,000). Advisors generally report that while their average client may be below the minimum, new clients meet the minimum criteria. Not surprisingly, the minimum jumps to \$260,000, on average (and a median of \$200,000) for the combined top producer group. Top producers are more likely to set and stick to higher asset minimums.

It is interesting to note that many advisors are now culling their client bases to ensure that more clients fit into the ideal category. This trend has been growing for some time, however we can see clear indications that it is growing both in the number of advisors who are culling and the scope of that process.

Q: *Are you actively culling your client base?*



Q: *If yes, how many client household do you hope to transfer/fire within the next three years?*



Although a smaller percentage of MFDA advisors say that they are culling their client base (43%), compared to IDA advisors (56%), they tend to want to eliminate more clients. This result clearly suggests that advisors are looking to improve their businesses by focusing on the 'right' clients, even if those definitions differ by advisor.

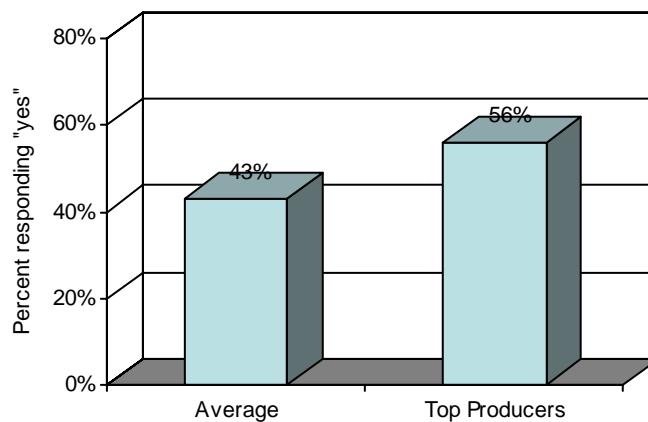
Improving Time Management

Advisors have long faced the challenge of managing large client bases, often of increasingly demanding clients, while continuing to both grow and manage the business. We can see this reflected in the challenges that advisors identify, including both adding new clients and managing existing clients.

There are many ways to improve time management. Some writers suggest a strategic approach, focusing time and effort on those things that are the highest value for both clients and advisors and some suggest more tactical approaches, such as 'time blocking'. The reality, of course, is that we need to do both.

Strategically, time management starts with understanding what clients value the most, so that time can be effectively prioritized. Fewer than half of advisors have formally gathered feedback on what clients value the most.

Q: Have you ever formally gathered feedback on the activities/services that your clients value the most?



Advisors must also prioritize time, of course, based on the value of the client. We find that advisors split their time fairly equal between top and average clients, with substantially less time devoted to low priority clients. The split does not vary substantially among top producers.

In general, advisors say that they are spending about half of their time on direct client activities (meeting with clients, preparing for meetings, responding to client enquiries and rebalancing/reviewing client portfolios or plans).

Q: On a scale of 1-10, how would you rate the importance of the following activities in terms of how you spend your time (rather than that of your team) to build and manage your business? In the last column, please indicate how much of your time is devoted to each activity?

Activity	Percent of time	Value Rating (out of 10)
Meeting with existing clients/preparing for meetings	28%	9
Responding to client enquiries	13%	8
Re-balancing/reviewing client portfolios/plans	9%	8
Structuring new portfolios/plan	8%	8
New business development activity	9%	8
Meeting with the team	4%	8
Product/market research	6%	8
General administration	10%	5
Business planning	5%	7
Professional development	6%	8
Other	2%	5

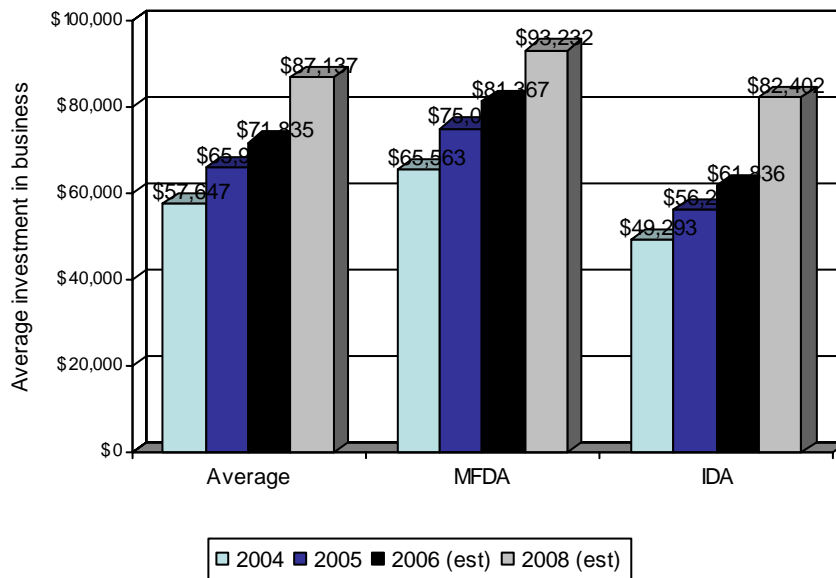
BENCHMARK DATA

Each year Advisor Impact gathers detailed information, as part of the Practice Update study, to understand growth and profitability. As the cost of running a financial advisory business increases, so does the need to focus on both practice and client profitability.

Practice Profitability

The costs of running an advisory business have, in fact, risen substantially year over year. One of the clear trends we can also see is a narrowing of the gap between the business investment levels of MFDA and IDA advisors, which will have the impact of further narrowing the income differences.

Q: How much did you invest in your business?



We can break this down into an average cost per client; however this is not a particularly helpful number because the cost of client management (e.g. the time that staff invests) can vary quite a bit from a top to low priority client. Nor does this analysis include the time cost of the advisor, one of the most substantial drivers of overall cost. It remains, however, a helpful benchmark.

	Average cost per client
Average	\$232
MFDA advisor	\$237
IDA advisor	\$229

Advisors are generally optimistic about the cost of client management. Although the average cost per client rose 11.4% from 2004 to 2005, they anticipate an increase of only 5.3% between 2005 and 2006.

If we make a conservative assumption regarding advisor income, we can also see that operating profit margin in the average advisory business is not particularly high. Note that all of the following tables are for the average of all respondents (both MFDA and IDA advisors).

Once again, note that extreme optimism for the future, underscored when we focus on the operating profit margins.

	2004	2005	2006 (est.)	2008 (est.)
Assets	\$32,911,180	\$39,574,528	\$45,571,521	\$62,164,737
Gross Revenue	\$318,856	\$388,321	\$466,477	\$622,098
Expenses	\$57,647	\$65,994	\$71,835	\$87,137
Payout	\$133,891	\$172,037	\$175,992	\$253,862
Net Revenue	\$127,318	\$150,290	\$198,651	\$281,099
Advisor 'salary'*	\$100,000	\$100,000	\$100,000	\$100,000
Operating profit	\$27,318	\$50,290	\$98,651	\$181,099
Operating profit margin (as a percentage of gross revenue)	9%	13%	22%	29%

* Advisor salary is estimated at \$100,000, a conservative estimate of what most advisors say they need to earn to make their business a profitable and worthwhile venture. Clearly this number can increase substantially depending on the advisor.

Other Key Ratios:

	2004	2005	2006 (est.)	2008 (est.)
Expenses: Assets	.18%	.17%	.16%	.14%
Expenses: Gross Revenue	18%	17%	16%	14%
Average assets/client	\$119,092	\$139,032	\$154,911	\$194,009
Average revenue/client	\$1,154	\$1,364	\$1,518	\$1,941
Attrition Rate ⁶	3.6%	4.1%	4.6%	5.1%
Turn Rate ⁷	1%	1%	1%	1%

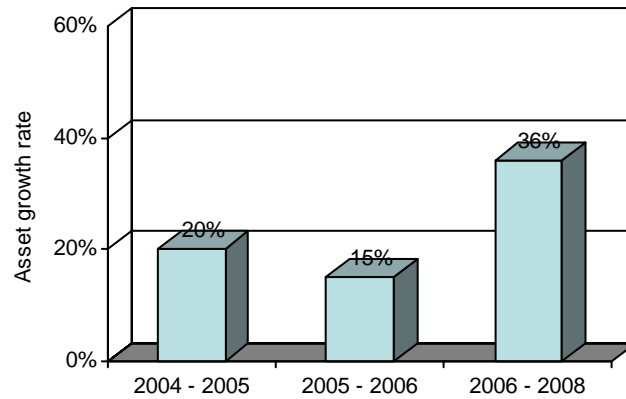
⁶ Percent of clients lost

⁷ Revenue over assets

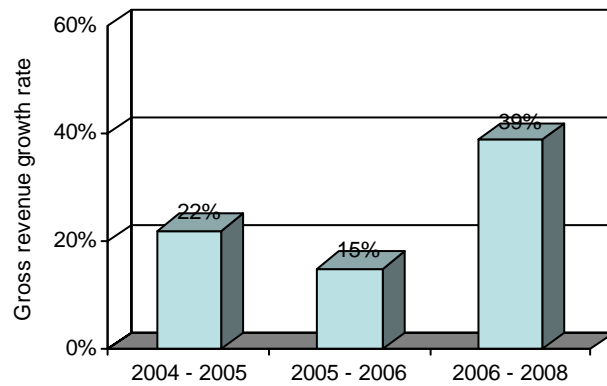
Practice Growth

Advisors are looking to achieve substantial growth rates in the next two years. We can see a very clear trend, however, that suggests they will target clients much more carefully, resulting in much lower client growth rates.

Growth: Assets under management



Growth: Gross revenue



Growth: Client households

