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RIA Survey & Ranking 2016

JULY 1, 2016 • EVAN SIMONOFF, ERIC RASMUSSEN

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It's been almost two years of sluggish markets and a rising regulatory menace, and it's likely investment advisors would find themselves squeezed. The threat of new U.S. Department of Labor rules determining how advisors can handle retirement assets sent a chill through the profession, even though the rules impact advisors with brokerage licenses more severely than RIAs (brokerage firms have already answered the final rules that arrived in April with lawsuits).

Nor were the stock markets friendly to advisors. After several years of double-digit returns, the S&P 500 was up 1.4% in 2015, including dividends. Since mid-2014, domestic equities have essentially gone nowhere.

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Among the 612 RIA firms surveyed by Financial Advisor magazine, more than one-third, 219, said they saw assets under management shrink last year. The average amount of firm assets per client fell 4.2% from $5.5 million to $5.27 million.

"Poor market conditions for the past two years [hurt]," says a principal at one firm in the survey. Other responses should remind advisors that their firms are always vulnerable to staffing and succession issues. One advisory with more than $2 billion in year-end total assets noted, that the "loss of a single senior advisor in 2015 negatively impacted [the firm's] AUM by over $400 million."

There are other suggestions, however, that the volatility and regulatory burdens borne by other channels are the registered investment advisor's gain. The average number of client relationships rose more than 16%, to 946.67 in 2015 from 813.88 in 2014, as the very big firms continued to get bigger. The average number of employees at the firms, according to the survey, rose to 26.73 from 23.86.

"The local and national economy have played a large role in the growth of our business," says a principal at one firm, "mostly because of the recent market volatility and the effect that has had on client emotions and willingness to move assets."

Technology plays a role in hindering growth as well. Says the principal at one firm with a little more than $200 million in assets: "The thing that has most hurt our firm in our aim to grow our asset base has been the building out of the infrastructure from scratch since we [are] such a young firm."

But chaos, as the roguish character Littlefinger from Game of Thrones once noted, also creates a ladder and opportunity. One owner of a business with $25 million in assets in 2016 noted flatly:

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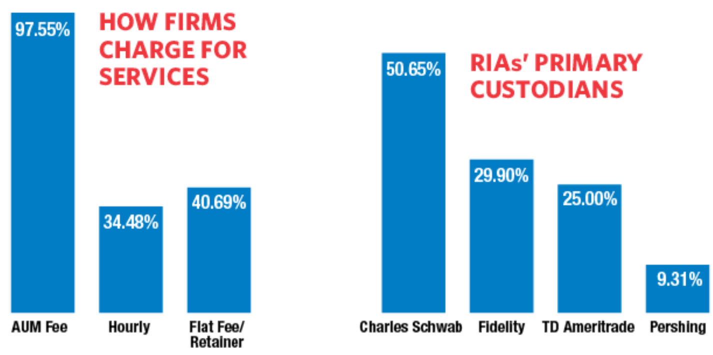
"Market volatility has helped."

And the new DOL regs were seen by many not as hindrance but as validation—the stamp of approval for a fiduciary approach they were already taking. Says one advisor: "I believe we will benefit from the DOL policy because more clients will come to realize that their broker did not treat them as well as they thought."



ACTIONS FIRMS HAVE TAKEN IN THE LAST 3 YEARS

	ACTIONS TAKEN IN LAST 3 YEARS %	ACTIONS LIKELY IN NEXT 12 MONTHS %
Hiring strategy consultant	31.54%	8.17%
Obtaining a valuation appraisal	32.19%	8.82%
Adding one or more offices	27.61%	10.62%
Holding exploratory merger talks	40.52%	9.97%
Rejecting a merger proposal	22.71%	1.80%
Hiring a former registered rep to work at your firm	33.33%	10.29%

Some firms viewed the stagnant business environment as an opportunity to re-examine their business strategy and make some tactical shifts to invest in the future. Massey, Quick & Co. of Morristown, N.J., was established a decade ago as a high-end firm and grew quickly to $2 billion in assets under management, attracting clients with an average of $11 million at the firm, according to managing partner Joseph Belfatto.

But those types of clients typically gain their wealth via some sort of liquidity event, and since the Great Recession, there haven't been as many initial public offerings or mergers and acquisitions. So Massey Quick dropped its $5 million minimum and decided to target the emerging affluent, reaching out to business owners, successful women and younger executives.

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