

Financial Advisors in Motion: A Game of Musical Chairs

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Today the only financial service firms whose assets are growing appear to be those that support the expanding ranks of independent broker/dealers, banks and registered investment advisors (RIAs). Why are these financial firms growing at record pace, while others are suffering?

The ground beneath the traditional distribution channels is shifting. The next generation of financial intermediaries is emerging at the expense of the wirehouse giants that are feeling the full impact of the financial crisis and market downturn. **Discovery Database**, the leading provider of financial intermediary data, has been actively tracking the recent trends in registered representative (RR) movement. They report that since December 2008, approximately 7,000 RRs have left the wirehouse firm they worked for to join another broker/dealer or set up shop as an independent advisor.

Approximately one third of all RRs who have left wirehouse firms over the past four months are going the independent route, either transitioning their business to an independent broker/dealer (IBD) or striking out on their own as a registered investment advisor (RIA). A large number of the registered reps in motion have joined independent broker/dealer firms (IBDs) such as **Raymond James** and **LPL**. An equal number of RRs are choosing custodians like **Fidelity** and **Schwab** to transition their book of business to a fee-based approach as a RIA.

Financial Advisors Continue To Play Musical Chairs

The movement of Registered Reps between financial service firms and trading platforms is expected to continue and likely will accelerate. While RRs move for many reasons, there are a few key factors that drive this trend. The biggest incentive is financial. Reps see the opportunity to increase income as well as gain equity

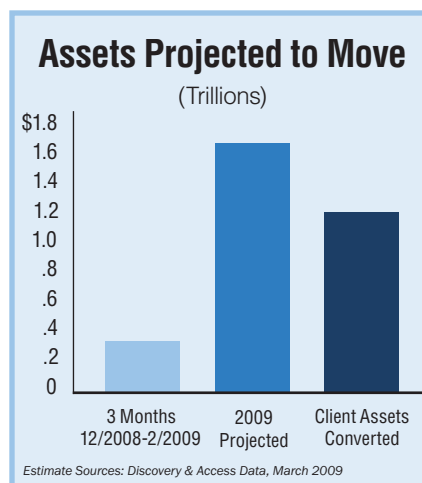
ownership in a business.

A recent study by Schwab pointed out that RRs typically receive a payout of 30% to 45% of revenue from a wirehouse broker/dealer. In the past, this relatively low payout structure was acceptable because RRs felt they benefitted from the strong brand of the wirehouse broker/dealer. In the wake of the current financial upheaval and market scandals, however, wirehouse broker/dealer reputations have been hurt, and the power of their brand has diminished. Independent broker/dealers and other financial intermediaries have moved up in stature relative to wirehouse firms. Plus, Registered Reps can double their payout by moving to an IBD firm, or becoming a RIA, making a move an easy decision.

How the Game Could Impact Your Business

You might be wondering if the market upheaval causing RRs to switch firms really matters to mutual fund firms. When you consider that 90% of all mutual fund sales are made through financial intermediaries, it becomes clear that it does. If the number of RRs switching firms continues at the current pace, funds will have to expend more time and effort tracking down their best producers and searching for new prospects. Those that are best positioned to identify, track and service the RRs during their transition will ultimately win the game and gain market share.

The market share associated with RRs switching firms in the past three months is already significant, representing approximately \$419 billion of assets under management. If this trend continues through 2009, RRs with more than \$1.7 trillion in assets are likely to be working for a new firm. Recent surveys also indicate that RRs anticipate converting 75% or more of their clients' assets to their new firm within 12 months. This could translate to more than \$1.25 trillion of shareholder assets being up for grabs.



Can you Find Your Best Clients and Prospects?

As RR movement accelerates, it is crucial for fund firms to stay on top of your best clients. This goes beyond simply identifying your top producers. You need to understand the type of business these advisors conduct and where they are moving. To do so, a portion of your marketing budget and resources should be reallocated to business intelligence tools that help wholesalers:

- Segment advisors by category (RIA, IBD, RR etc.)
- Identify the products sold by different types of advisors
- Identify trading platforms and custodians used by advisor type
- Track the movement of advisors

Access to current trading and market data about RRs in motion is a major industry issue that can negatively impact your firm's bottom line if not addressed effectively.

Frank Polefrone is responsible for Product Development and Marketing for Access Data, a leader in enterprise reporting and data management services for the financial services industry. Access Data offers a fully integrated distribution solution enabling mutual fund firms to focus on advisors most likely to do business with them. For more information visit accessdc.com