Next: The Wealth Management Firm of the Future

Driving Firm Growth and Success: A 2023 Mid-Year Update

Produced by:

Introduction

Defining success for wealth management firms and identifying its drivers were the objectives of research conducted last year by Wealth Management IQ in partnership with BNY Mellon Pershing. Results of that research were published in a white paper, *Next: The Wealth Management Firm of the Future*

To update that report and note any significant changes in how firms view their growth prospects after a tumultuous period of economic and market change, a comparable group of advisors and wealth management firm leaders were surveyed in April and May 2023. The results of that research are presented in this report.

Survey Highlights

Firm growth expectations are now modestly lower and ***31%*** *of respondents cite the ability to generate organic growth as the most important driver of growth overall.*

62% *of respondents say they will increase their investment in technology.*

To drive growth, more firms will be looking to ***hire business development and marketing-related personnel*** *than in the past.*

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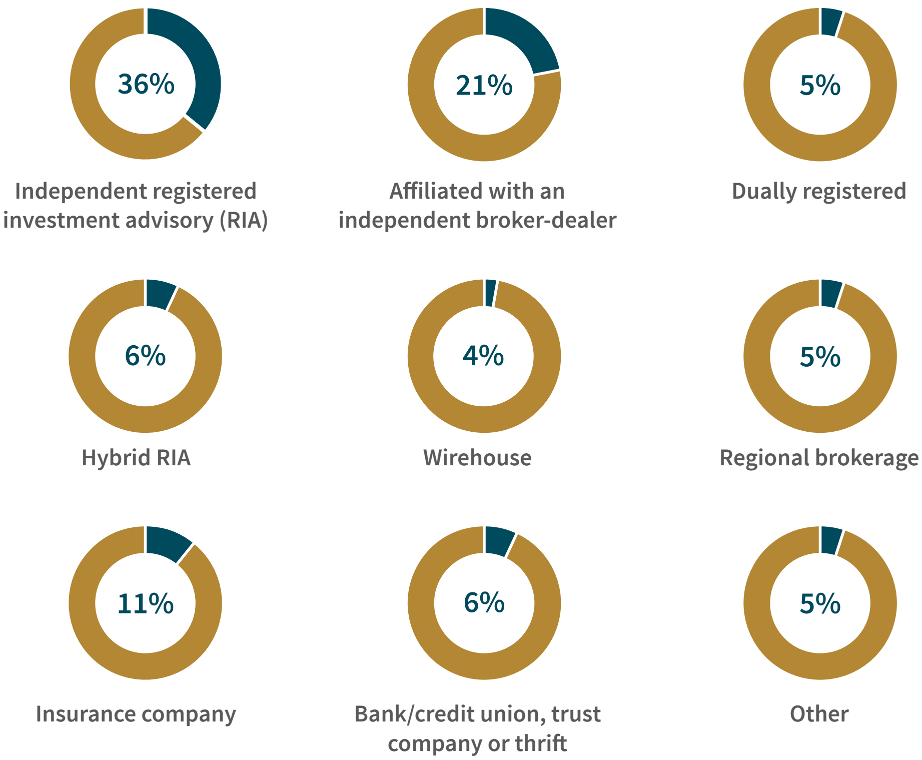
Respondents at a Glance

While respondents to the most recent survey and to the earlier survey were different, their demographic profiles are extremely similar, making comparisons statistically valid. Below, a snapshot of current survey respondents.

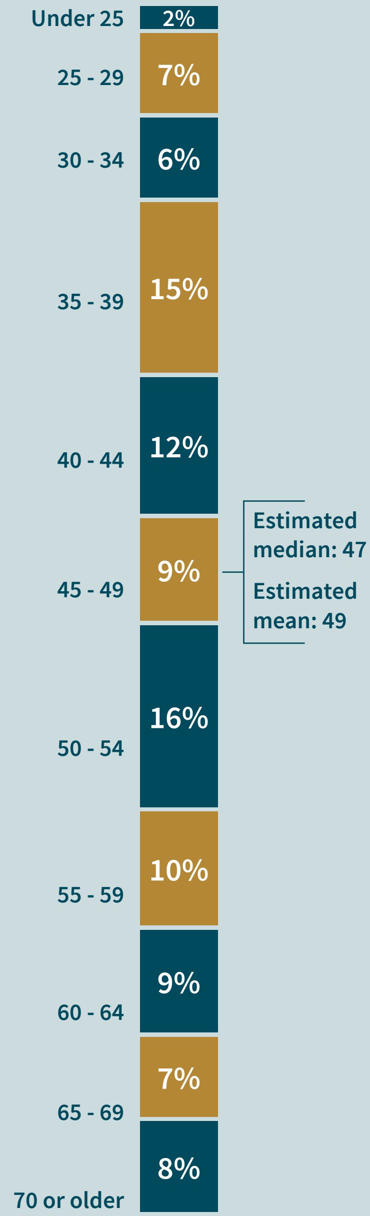
Firm Type



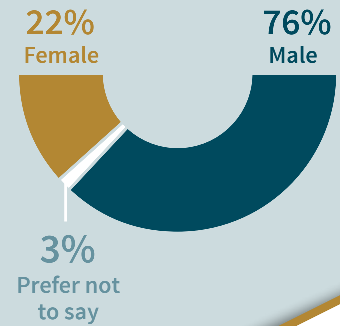
Approximate Assets Under Management (AUM)

	managed personally	managed by firm or branch
Under $50M	27%	20%
$50M - $99.9M	13%	9%
$100M - $249.9M	20%	14%
$250M - $499.9M	10%	9%
$500M - $999.9M	7%	11%
$1B- $4.9B	5%	17%
$5B - $9.9B	0%	5%
$10B - $19.9B	0%	2%
$20B+	1%	14%
Estimated mean (in millions)	$784.2	$4,794.2
Estimated median (in millions)	$175.0	$375.0

Age



Gender



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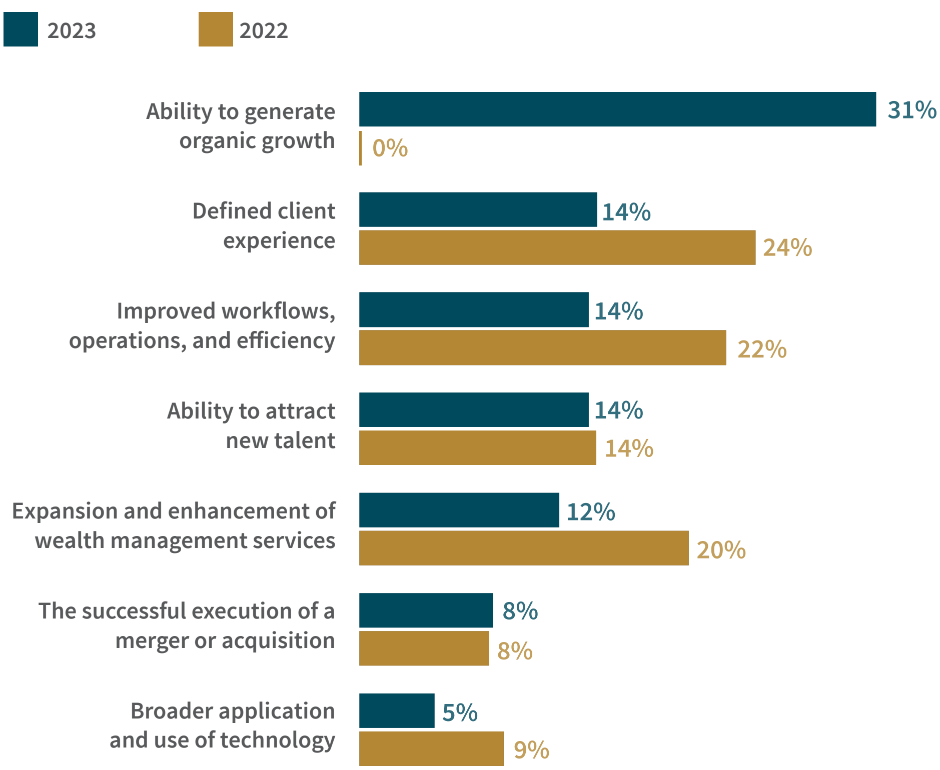
More Moderate Expectations and a Focus on Organic Growth

Of all areas of inquiry in the latest research, the most significant change occurred in advisors' expectations of future AUM growth. No doubt chastened by the simultaneously dismal performance of equity and fixed income markets in 2022, survey respondents now see future growth to be more moderate than they earlier anticipated. Currently, 70% of advisors see AUM growing between 1% and 75% over the next five years, as compared with 60% of advisors who envisioned that level of growth last year. Only 27% of advisors now see asset growth of 76% to more than 100% over a five-year period versus 34% of advisors who expressed that level of enthusiasm a year ago.

How will advisors and their firms generate that growth? Creating an improved client experience, expanding services, and improving workflows and efficiency are now considered less important growth drivers than last year. The chief driver, say 31% of respondents, is the ability to generate organic growth.

Most important contributor to firm growth this year



Anticipated AUM Growth Over Next Five Years

Increase by more than 100%

2023 **17%** 2022 **23%**

Increase by 76%-100%

2023 **10%** 2022 **11%**

Increase 51%-75%

2023 **20%** 2022 **18%**

Increase 21%-50%

2023 **32%** 2022 **27%**

Increase 1%-20%

2023 **18%** 2022 **15%**

No change

2023 **3%** 2022 **5%**

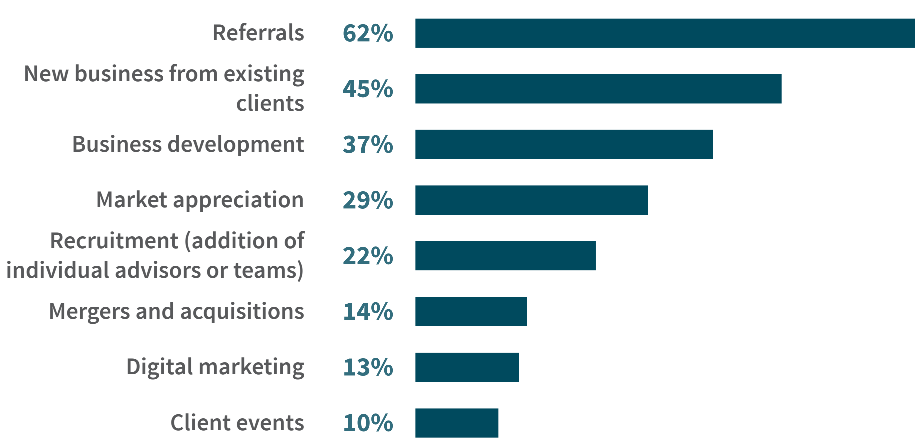
Decrease

2023 **1%** 2022 **1%**

Almost identical to responses last year, advisors anticipate that the leading sources of growth will be referrals, new business from existing clients and business development.

While mergers and acquisitions have attracted considerable attention in recent years, particularly in the RIA channel, that inorganic route to growth remains relatively underused by most respondents. More than two-thirds of those surveyed — 68% — say they have not participated in any M&A activity over the past two years, much like the 72% who responded similarly a year ago. Over the next five years, 41% of survey respondents said they expect their firm will not make any acquisitions (versus 54% a year ago), while 26% thought their firm would make one acquisition over that time period, versus 21% a year ago.

Sources of firm growth



"Organic growth is our focus since combining technology and cultures is a challenge when growing through M&A."

— Ina Toderita, Director of Operations, Balentine

Consistent Views on Clientele and Services

The emphasis that firms place on serving various client wealth segments has remained ~~very~~ similar since the last survey. Perhaps due to the market's decline last year, advisors have shifted their attention to a small degree, moving to attract more clients in the upper-middle to middle-tier wealth segments over the next five years and fewer ultra-wealthy clients.

Clients currently served

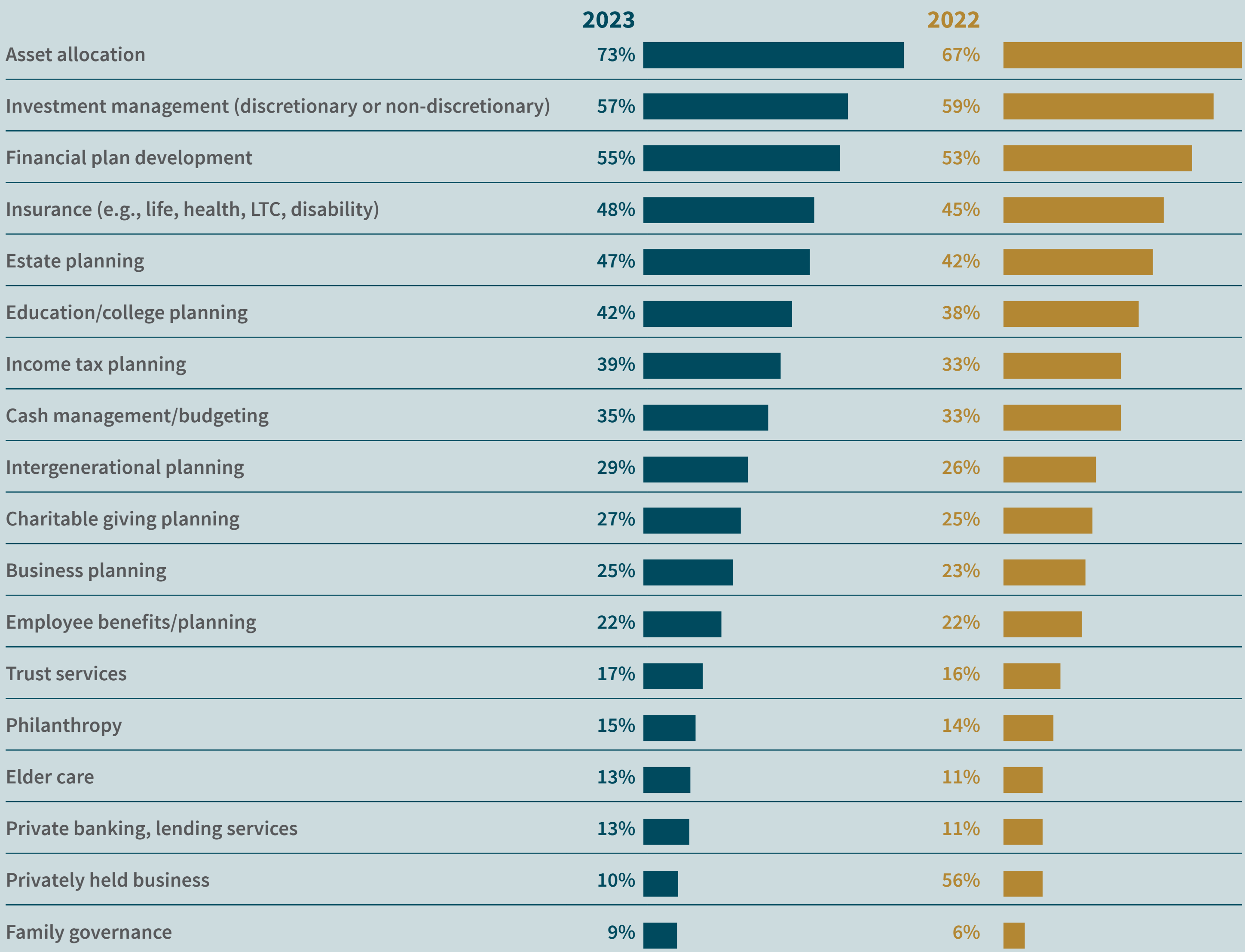
	2023	2022
High net worth ($1M-2.9M in assets)	60%	62%
Emerging affluent ($300K-$999K in assets)	56%	59%
Mass affluent ($100K-$299K in assets)	45%	45%
High net worth ($3M-$4.9M in assets)	44%	45%
Very-high-net-worth ($5M-$29.9M in assets)	37%	38%
Middle market (Below $100K)	24%	33%
Ultra-high-net-worth ($30M+)	19%	20%
Defined contribution plans	19%	19%
Non-profits (endowments and foundations)	10%	13%
Defined benefit plans	10%	12%

Anticipated change in client mix by 2028

	2023	2022
Middle-market clients (Below $100K in assets)		
Working with them more	38%	47%
No change	34%	30%
Working with them less	28%	23%
Mass affluent clients ($100K-$299K in assets)		
Working with them more	47%	56%
No change	34%	30%
Working with them less	19%	14%
Emerging affluent ($300K-$999K in assets)		
Working with them more	63%	61%
No change	33%	33%
Working with them less	4%	6%
High net worth ($1M-2.9M in assets)		
Working with them more	72%	80%
No change	25%	19%
Working with them less	2%	1%
High net worth ($3M-$4.9M in assets)		
Working with them more	73%	80%
No change	25%	17%
Working with them less	2%	3%
Very-high-net-worth ($5M-$29.9M in assets)		
Working with them more	65%	75%
No change	32%	24%
Working with them less	3%	1%
Ultra-high-net-worth ($30M+)		
Working with them more	70%	71%
No change	29%	29%
Working with them less	1%	-

The services delivered to clients in the future also are likely to be a continuation of those currently offered. Among the most popular services they offer, 48% of advisors say they expect that the frequency of delivering asset allocation, business planning, and cash management services over the next three years will remain the same. Fifty-five percent of advisors also believe their delivery of education/college planning services will remain the same. Service areas where high percentages of advisors foresee the greatest increase in demand include elder care (79%), estate planning (69%), intergenerational planning (69%), and retirement income planning (67%).

Services currently delivered most frequently



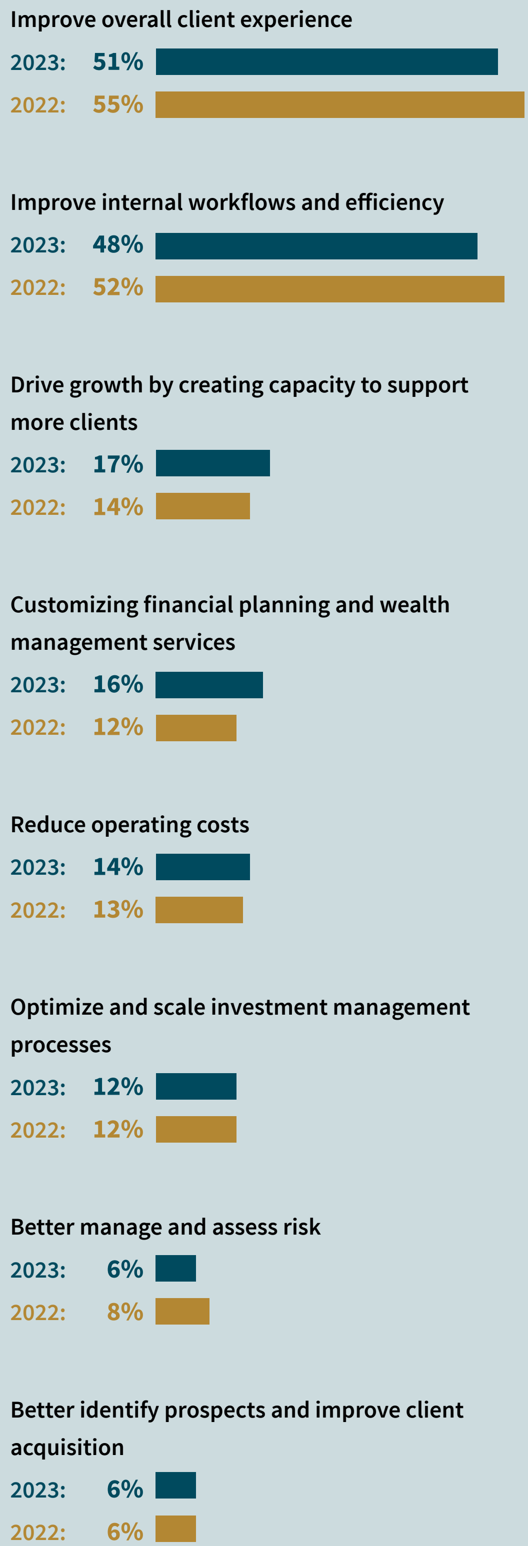
Investing in Technology and People

Technology and human capital remain the primary drivers of wealth management firm growth and success. This year as in the past, a majority of firms — currently 62%— intend to spend more on technology, with 31% saying they see no material change in their spending, and just 7% saying they plan to cut tech spending. The major objectives for investments in technology are improving the client experience and improving firm efficiency, similar to last year's results. A distant third reason for tech spending is to drive growth by creating capacity to support more clients.

When asked how they would describe their firm's approach to technology, 40% of firms (versus 35% a year ago) classified themselves as an Enabler, defined as a firm that invests in technology to improve its efficiency and productivity. Twenty-nine percent say they are Utilitarians (versus 28% last year), which are firms that invest in basic technology to support overall operations. Slightly less common at 25% (versus 31% a year ago) were firms that classified themselves as Innovators, or firms that invest in new and emerging technology to drive growth. Just 6% (versus 5% a year ago) say they are a Laggard, defined as a firm that does not prioritize technology and uses outdated tools.

To meet their human capital needs as they prepare for growth over the next five years, firms are continuing to add personnel as well as new roles. Compared to the last survey, more advisors now say they anticipate adding a business development specialist and a marketing associate, with fewer reporting they would be adding a junior advisor/paraplanner. In both surveys, however, a junior advisor/paraplanner was the leading role that firms are seeking to add. Nearly a quarter of respondents, however, anticipate that their firm will be adding none of the 13 roles identified.

Primary reason for investing in technology



Roles firms anticipate adding over the next five years

	2023	2022
Junior Advisor/Paraplanner	19%	26%
Business Development Specialist	17%	14%
Marketing Associate	15%	13%
Executive Assistant	14%	13%
Portfolio Manager	10%	8%
Lead Advisor/Financial Planner	9%	7%
Research Analyst	9%	14%
Chief Marketing Officer or Director of Marketing	7%	8%
Chief Technology Officer or Director of Technology	6%	5%
Chief Compliance Officer or Compliance Director	6%	7%
Chief Financial Officer or Director of Finance	6%	5%
Chief Operating Officer or Director of Operations	5%	7%
Chief Executive Officer or Managing Partner	2%	2%
None of the above	24%	-

Survey respondents also provided an update on the areas of expertise they believe will be most valuable to wealth management firms in five years, which is likely an indication of where they will be directing their technology and hiring efforts over the next five years. For a second time, retirement income planning topped the list (34%), followed by investment management (30%), financial plan development (29%), asset allocation (27%), and income tax planning (25%).

Finally, when asked to identify their three top metrics and considerations when evaluating the overall success of a wealth management firm, the most recent results indicated a shift to a more bottom-line orientation. While client retention, client satisfaction levels and growth in assets under management continued to be the most important measures of business success, advisors felt less strongly about their importance. Client retention, for example, was considered the top metric by 56% of respondents in the most recent survey but by 60% last year. Similarly, client satisfaction was considered a top-three factor by 47% of respondents this year and 61% last year: growth in assets by 39% versus 43%.

In contrast, growth in revenue was considered a top factor by 34% versus 30% last year and growth in profits by 25% versus 20%.

"At my former firm, I hired a support person whose work and relationships with clients were fantastic. We groomed him and now he's 'killing it' as an FA."

— Carina Diamond, Chief Growth Officer, Dakota Wealth Management

Takeaways

- As firms place increasing emphasis on organic growth, look for more investment in business development and marketing. This is likely to include technology-related spending to support web-based marketing efforts as well as human capital investments in roles that drive growth.
- Advisors will continue to increase their investments in technology to improve the overall client experience and improve efficiency.
- Human capital needs remain one of the greatest challenges of the wealth management business as competition for talent is at an all-time high and the talent pool does not appear large enough to meet demand.

Survey Information

OVERVIEW

Methodology, data collection and analysis by Wealth Management IQ. Data collected April 26, through May 11, 2023. Methodology conforms to accepted marketing research methods, practices and procedures.

METHODOLOGY

Beginning on April 26, 2023, Wealth Management IQ emailed invitations to participate in an online survey to active users. By May 11, 2023, Wealth Management IQ had received 453 completed responses.

RESPONSE MOTIVATION

To encourage prompt response and increase the response rate overall, email invitations and survey invitations were branded with the WealthManagement.com name and logo to capitalize on user affinity for this valued brand. The first 200 respondents were afforded the opportunity to receive a $10 Starbucks card.

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