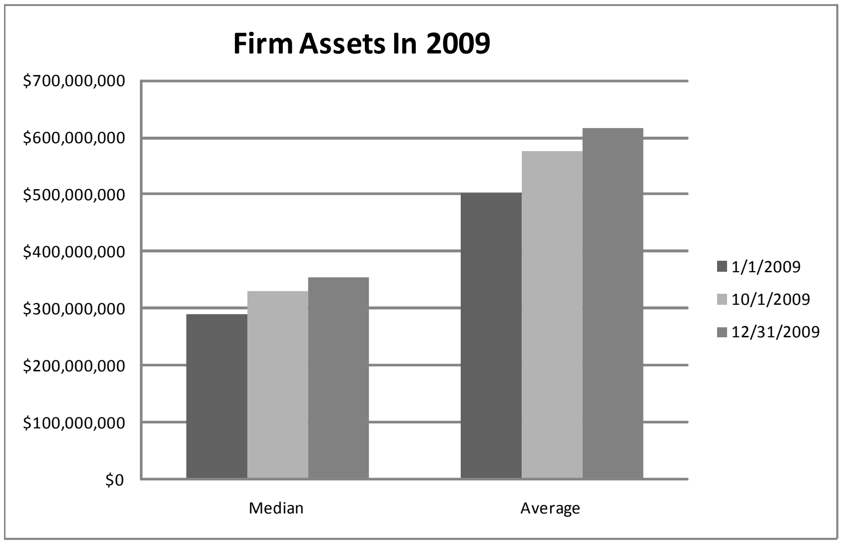
Growth in Winter

By Philip Palaveev

When you stop growing, you start dying! Merely maintaining the status quo has not been an option for wealth management firms, especially those who are competing for the wealthiest of clients and the top spot in their local markets. Never has this been so dramatically true than in 2009. In one year, we witnessed the biggest contraction in assets, revenues, staff and profits, only to see three quarters later a renewed emphasis on growth. The data from 75 of the top wealth management firms in the country shows us both the dramatic nature of the recovery as well as the renewed desire and vigor to grow.



Restarting growth in 2010 is the top priority for the wealth management firms in the survey. At the same time, growth in 2010 is a lot like running the 20th mile of a marathon—exhaustion has set in, resources are depleted and the finish line is still more of a concept than part of the landscape. The growth plans of the premier wealth management firms in the country are still suffering from over-dependence on the original founders of the firm and a lack of systematic processes and proactive initiatives. Still, the market gave firms a boost in the last quarter as it had in the previous quarter.

In the last quarter of 2009, assets under management (AUM), grew by 7.2% on average, finishing the year up 23.0% from January 1st, 2009. Fourth-quarter AUM growth was an equal mix of business development and market performance. On average, new assets from new clients as well as existing clients boosted assets by 4.4% in the fourth quarter. The market performance added another 3.4% to AUM growth. Distributions and lost clients accounted for a decline of 1.1% of AUM.

The speed of recovery in AUM in the last two quarters of 2009 was remarkable. If annualized, the 7.2% growth rate in the fourth quarter results in an annual change of 32.1%—a very rapid rate of growth. On average, firms have recovered their AUM to year-end 2008 levels and are close to recovering the pre-crisis levels of assets. The median for AUM lost in the last quarter of 2008 was 19.4%. This means that the typical firm is approximately less than 2% away from September 2008 asset levels. Naturally, this calculation is only an approximation, since the sample of firms in the two quarterly Top Wealth Manager Pulse surveys is different.

While AUM may be closer to pre-crisis levels, revenues, profits, staffing and other vital statistics have not yet reached that level. What is more, the attitude and sentiment of firm owners is still cautious. While most firms are looking at 2010 with a sense of optimism and a desire to restart growth, many of the open-ended comments in the survey still talk about "survival" and "retrenching." Growth, however, is the prerogative for 2010—but the method of growth and the responsibility to execute are more difficult to pinpoint.

Change In Assets and Clients All Respondents				
	Median		**Average**	
Changes in Clients 2009				
Beginning Clients	219	100%	338	100%
New Clients Added	17	8%	26	8%
Lost Clients	-8	-3%	-14	-4%
Ending Clients	230	105%	351	104%
Changes in Clients Quarter 4				
Beginning Clients	220	100%	337	100%
New Clients Added	3	1%	8	2%
Lost Clients	0	0%	-3	-1%
Ending Clients	226	103%	342	101%
Revenue Per Client	$7,382		$14,109	
AUM Per Client	$1,342,243		$3,050,831	

On average, wealth management firms added 26 new clients in 2009 and lost 14 clients in the same year. "Lost" clients often included clients that the firm has "coached out" or referred to another advisor because they were below the required minimum. Of the 26 total clients added in 2009, on average eight were added in the last quarter, while three of the 14 clients lost were in the last quarter. It appears that the pace of new client additions is increasing while the bleeding of clients has largely stopped. In fact, per the median (rather than average) the typical wealth management firm did not lose any clients in the last quarter.

Tomorrow:

Part 2: Growth Ambitions

Part 3: Who Will Help us Grow?

Part 4: Marketing Methods and Initiatives

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