

Elite RIAs

Best practices from top producers



To succeed in today's financial services landscape, advisors need to be proactive and flexible, especially when faced with challenges from new competitors and service models. In considering best practices for your business, it is helpful to reflect on strategies used by the most successful advisors.

Each year, *InvestmentNews Research* identifies and describes a group of elite RIAs that represent the most productive professionals in the industry. These profiles can provide a starting point for other advisors looking to profitably grow their businesses. The 2020 survey, was conducted at the height of the COVID-19 pandemic, and it also provides some insights into how top advisors managed through this crisis.

Characteristics of elite advisors

Advisors termed “elite” in the 2020 *InvestmentNews* study were RIA-affiliated firms—independent RIAs and hybrids affiliated with broker-dealers—with at least \$250 million in assets under management (AUM). These firms scored in the 50th percentile of firm productivity (as measured by both revenue per professional and revenue per staff member). Elite RIAs accounted for fewer than 20% of firms that participated in 2020 *InvestmentNews Research* advisory survey.

One characteristic that distinguishes elite RIAs is their size:

- The median elite RIA firm was managing \$643 million in assets in 2019, more than six times the size of other firms in the survey.

- Median revenue for elite RIAs was \$3.6 million, compared with \$635,000 for other firms.
- Elite RIAs tend to serve a larger client base, with a median 475 clients compared to 212 for non-elite firms.
- While elite RIAs may employ a larger staff to support this larger client base, they tend to do more with less—boosting their productivity and profitability. Median revenue per professional for elite RIA firms was \$901,785, almost three times as great as professional productivity at all other firms. Similarly, median revenue per employee at elite RIA firms was \$379,698, or nearly double what it was at other firms.

Elite RIAs focus on wealthier clients

One strategy that makes elite RIAs more productive, and more profitable, is their focus in higher net-worth clients. Among the elite firms in the *InvestmentNews* study, 60% serve households with \$10 million to \$30 million in investable assets, compared with just 25% of other firms. Nearly 40% of elite advisors targeted households with over \$30 million in wealth, versus 16% for other advisors. Elite RIAs were

also more likely to work with institutional clients, including retirement plans, endowments and foundations.

By focusing on wealthier clients, elite RIAs not only earn higher asset-based fees, they also have more opportunities to distinguish themselves through integrated wealth management. Higher net-worth clients tend to have more complex financial needs, such as estate and tax planning. This gives RIAs more opportunities to add value in the relationship and potentially generate more fee-based income.

KEY TAKEAWAYS:

> To better understand the profile of your client base, conduct a segmentation strategy that categorizes your clients in terms of asset levels, fee-based revenues, and other metrics.

- > Outline some strategies to reach out to wealthier clients, taking advantage of centers of influence as well as referrals from your existing client base.
- > To free up more time to focus on wealthier clients, you might consider outsourcing management responsibilities for lower net-worth clients or simplifying the investment process through model portfolios.
- > Regularly track key performance metrics, such as revenue or profit per client, to monitor the profitability of your business. As your firm grows, also track revenue per advisor and revenue per employee to make sure you're not growing your overhead faster than your revenues.

Elite RIAs see investment management as their core business

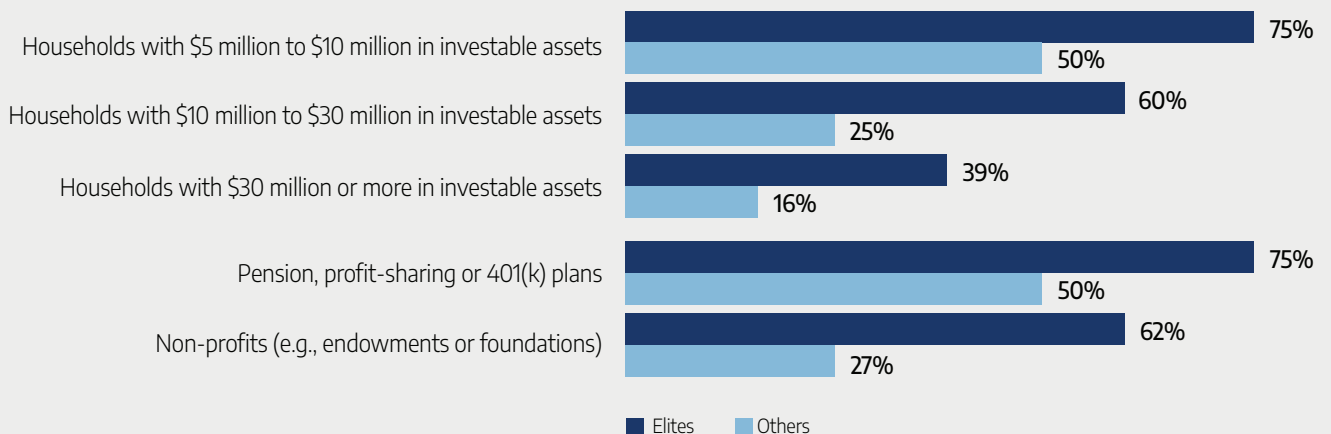
Compared to other advisory firms, elite RIAs are more likely

Characteristics of elite RIAs

	# of employees	# of professionals	# of clients*	AUM (12/31/19)	Projected AUM (12/31/20)	Total 2019 revenue	Projected 2020 revenue	Avg. annual growth rate (2017-2019)
Elite RIAs (Median)	10	4	475	\$643M →	\$678M	\$3.6M →	\$4.1M	8.5%
All others (Median)	3	2	212	\$100M →	\$105M	\$635K →	\$700K	10%

*Household or institutions served (12/31/19)

Elite RIAs are more likely to work with high-net-worth clients



Source: 2020 Elite RIA Study, INResearch, InvestmentNews

(64% vs. 44%) to view themselves as wealth managers, rather than as simple financial planners. As part of this commitment, they are more likely to offer clients a broad array of personalized, integrated solutions that may include tax and estate planning. More than 70% of elite RIAs also provide specific services for business owners, while more than half offer concierge-level service, orchestrating a broad array of solutions to address complex client needs.

This full-service approach can help build trust and confidence, so clients see the advisor as an ally and confidant—the first person they call when they have a financial challenge or windfall. It also builds a long-term relationship that may weather periods of lower market returns, and or may be less sensitive to price competition. It also drives client satisfaction and may help elite RIAs attract more wealthy clients.

KEY TAKEAWAYS:

- Many top advisors craft a unique value proposition that tells people exactly who they are, what they offer and what kinds of clients they’ve helped in the past. This proposition can provide the core of your marketing communications and can be reinforced through every client interaction.
- While each investor’s financial situation may be complex, some may be complex in similar ways. By targeting a

specific niche, such as small business owners or tech professionals, you may develop deep expertise that can help set you apart from other advisors. Focusing on a niche may also help improve your success rates on referrals, since you can tell people exactly what kinds of clients you’re looking for.

- More than half of elite RIAs also offer concierge services. This high-touch business model is designed to address a wide range of individual client needs, calling upon the firm’s in-house expertise and its network of professional contacts. For example, advisors may help clients with licensing requirements for a small business or with arranging senior care for an elderly client. The advisor can then work with the client to evaluate tradeoffs, locate resources, and offer contingencies they may not have thought of.

Elite RIAs are more likely to use a team-based approach

At elite RIA firms, client relationships rarely belong to a single advisor, a business model that describes only 19% of the elite firms in the survey. Instead, nearly half of elite RIA firms dedicate a team of advisors and support staff to each client. Another 29% allocate advisors and staff members to meet specific client needs or business functions. For example, employees with strong communication skills may handle

How elite RIAs describe their firms

Which of the following statements most closely aligns with how you describe your firm to clients?

	Elite RIAs	All Others
Financial planning firm – Our primary focus is serving clients applying the financial planning process	7.7%	23.8%
Investment advisory firm – Our primary focus is serving clients through the development of investment strategy and selection of investment managers and/or securities for client portfolios	19.2%	21.0%
Investment management firm – Our primary focus is the discretionary investment management of client assets	7.7%	9.4%
Wealth management firm – Our primary focus is serving as a holistic adviser to clients, offering integrated tax, estate and personal financial planning in addition to the investment advisory services	63.5%	43.6%
Other	1.9%	2.2%

Note the difference between positioning as a wealth management firm vs. financial planning firm

Source: 2020 Elite RIA Study, INResearch, InvestmentNews

client messaging, while those with research skills can focus on meeting preparation.

This extensive use of teams provides a number of advantages:

- It frees up advisor time to focus on core investment priorities.
- It enables firms to scale profitably, making it easier to add clients without necessarily hiring an additional advisor.
- It enhances the firm’s brand by formalizing a service-delivery model.
- It builds client loyalty to the firm itself, rather than to an individual advisor. This creates long-term enterprise value that may pay off if a senior advisor leaves the firm or as the owner-advisor approaches retirement.

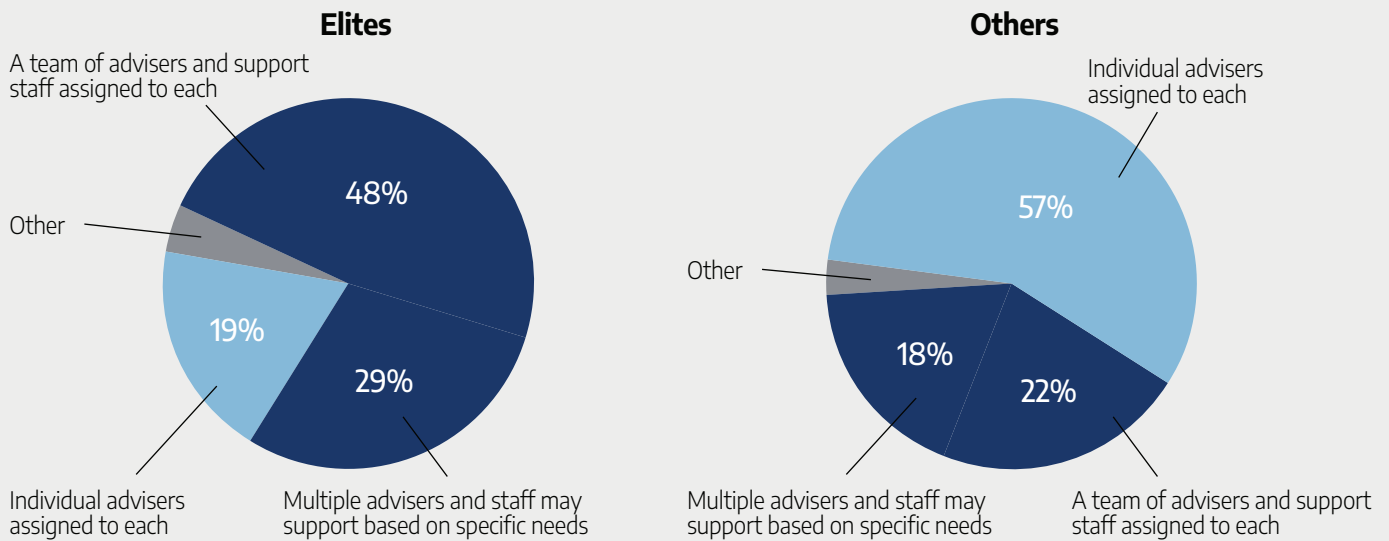
KEY TAKEAWAYS:

- > If you’re considering moving to a team-based approach, you might start by mapping out various aspects of the client experience, from onboarding through portfolio preparation and annual review.
- > Identify core competencies integral to each step and identify which people in your organization are best suited to carry out those tasks. Clearly define roles and responsibilities and set up key performance metrics to evaluate and reward staff excellence.
- > Elite firms also tend to hire and train staff for specific roles, such as digital marketing, which helps to build core

The Client Service Model: Elites have broader service menu



The Client Service Model: Elites are more likely to utilize a team structure



Source: 2020 Elite RIA Study, INResearch, InvestmentNews

competencies across the organization. In the study, more than 60% of elite RIAs reported hiring employees who spend at least 75% of their time on one specific area, such as client services, operations or investments. Additionally, 35% of elite RIAs had dedicated personnel focused on business development.

- As the firm grows and you add more staff members, you might consider designating a Chief Operating Officer to manage teams, review processes and oversee resource allocation. In fact, 69% of elite RIAs hire professionals to focus on operational issues, compared with 41% of other firms.

Most elite RIAs keep investment management in-house

Because elite RIAs see investment management as their core business function, they are more likely than other advisors (95% vs. 79%) to keep investment management in-house with a dedicated team of professionals. In cases where elite RIAs outsource some of their investment management, it tends to be for specific asset classes, such as alternative investments, or for smaller, less profitable accounts. Only 2% of elite advisors outsource investment management altogether.

Elite advisors are also less likely (11% vs. 22%) to outsource other investment-related functions, including portfolio construction, management and trading. When they keep investment management in-house, elite RIAs are slightly more likely than other firms to use an external party to set investment policy, portfolio design or asset allocation strategy.

Elite RIAs are more likely to outsource technology and compliance. While most elite firms keep investment management in house, they are more likely to outsource support functions. For example, 70% of elite RIAs outsource technology-related functions (including strategy, software implementation and training), while 62% outsource compliance.

Elite advisors take a strategic approach to technology. Elite RIAs view technology as an important differentiator for their business, but they are strategic in how they adopt and deploy it. Only 17% of elite RIAs in the study said they would be the first mover when it came to investing in new technology solutions. The highest percentage (38%)



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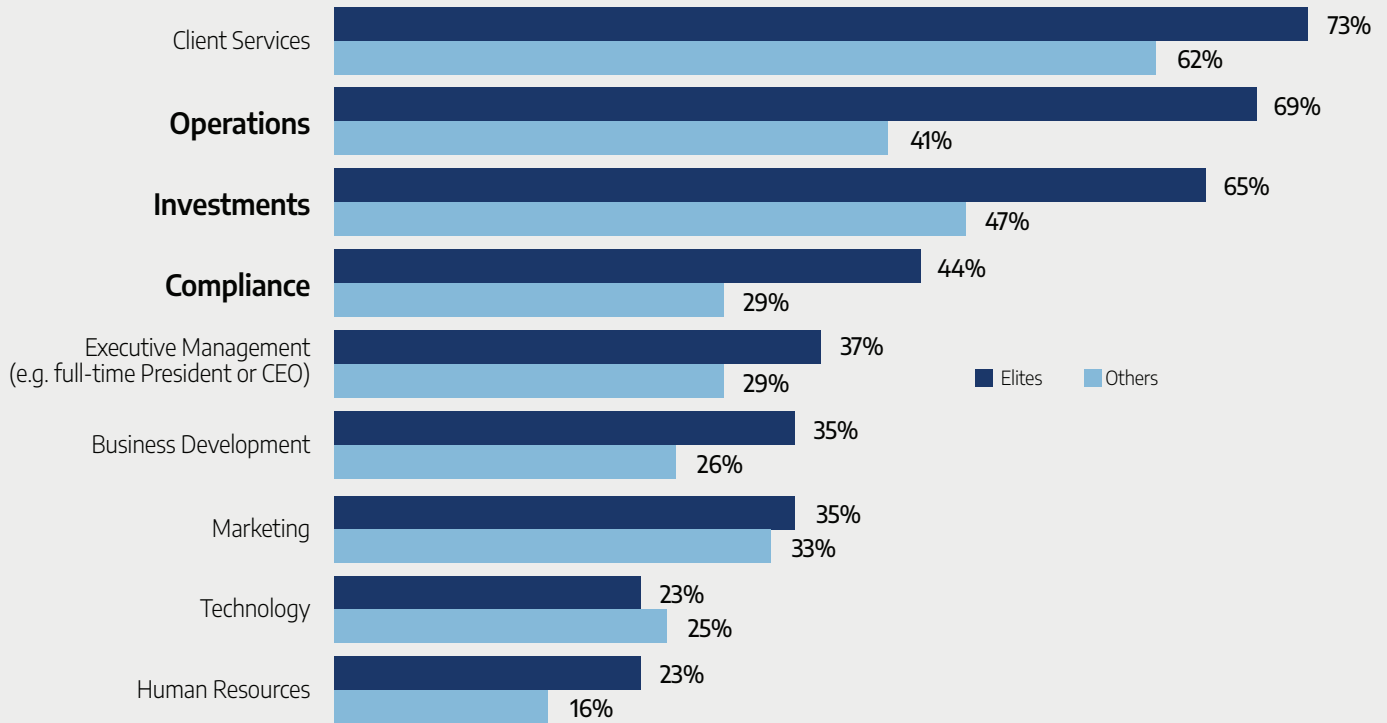
of responders among elite RIAs said they only invest in technology solutions once they are well-established.

KEY TAKEAWAYS:

- Managing individual portfolios can be time-consuming and may limit how fast or profitably a firm can grow. To help boost productivity, more than half of elite RIAs use model portfolios or commingled pools managed in house by their own investment staff. Only 40% of elite RIAs maintain custom portfolios for each client.
- Working with qualified technology or compliance consultants is a good strategy for offloading some non-core business functions. This approach also enables you to take advantage of focused expertise in areas, such as compliance, that may present substantial risks for your business. Compliance consultants may have deep knowledge and experience with regulatory agencies, and they can conduct mock examinations to make sure every area of your business is in compliance.
- Before investing in new technology, consider how it will improve your client experience. How will it affect your service model? What kinds of cost savings or productivity gains do you want to see? Involve key employees in the decision, and work with consultants to make sure you can seamlessly integrate new solutions with your existing systems.

Human Capital: Elites are more likely to employ specialized staff

Does your firm have employees or staff who specializes (dedicate 75% or more of their time) in the following areas?



Source: 2020 Elite RIA Study, INResearch, InvestmentNews

Which of the following activities or solutions, if any, does your firm utilize outsourcing providers in some capacity?

	Elite Advisers	All Other Advisers
Trading	8.5%	18.2%
Technology (infrastructure/IT, strategy, software implementation, training)	70.2%	47.1%
PR	6.4%	7.6%
Marketing	19.1%	21.2%
Investment Management	29.8%	42.4%
Compliance or regulatory adult support	61.7%	44.1%
Business efficiency assessment	12.8%	8.2%
Administrative services	12.8%	16.5%
None of the above	2.1%	17.6%

Source: 2020 Elite RIA Study, INResearch, InvestmentNews

Elite RIAs make growth a top priority

To a degree greater than other firms, elite RIAs attribute their future growth potential to their ability to target, acquire and retain clients. Additionally, over the next year or two, most elite firms have plans to generate additional revenues from their existing clients.

Elite RIAs are more likely to target other growth strategies, for example by acquiring another advisor or advisory firm or by opening a new location. Their ability to pursue these growth opportunities may benefit from their team-based approach and their efforts to create repeatable, scalable business processes that that can be applied to new clients.

KEY TAKEAWAYS:

➤ Selling additional products and services to your existing

client base may be the most straightforward way to increase revenues. It also adds value in your client relationships, strengthening your value proposition.

- As you look for opportunities to grow by adding another advisor or acquiring another firm, your custodian may be a valuable source of leads. You may also want to make an effort to get to know other advisors in your area or in a desirable target market. Learn which ones may be close to retirement and explore their succession plans. You might also consider serving as a backup for another colleague, if they go on vacation or have an emergency. This allows you to get a feel for their business and client base.
- Pursuing growth strategies requires management focus, and 37% of elite RIAs in the study have a full-time CEO. This executive may focus not only on recruitment and resource management but also on long-term growth strategies, such as acquisitions or geographic expansion.

Which of the following is your firm considering as a growth strategy/area for expanded growth in the next one to two years?

	Elite RIAs	All Others
Acquire another advisory firm	38.0%	21.8%
Acquire an individual adviser and his/her clients	44.0%	33.0%
Obtain a capital investment from a third-party	8.0%	2.8%
Merge with a strategic partner	10.0%	6.7%
Merge with a firm of similar or equal size	12.0%	11.2%
Open an office or branch in a new region	24.0%	15.1%
Target new client segments	54.0%	53.1%
Expand capabilities and expertise in ESG investing	22.0%	17.9%
Generate more revenue from existing clients	56.0%	50.8%
Enhance client acquisition strategies	58.0%	51.4%
Expand fee business to increase overall revenue	28.0%	40.2%
Expand capabilities and expertise in direct indexing	4.0%	0.6%
Expand capabilities and expertise in ETF investing	16.0%	15.1%
Other (please specify)	0.0%	2.8%
None of the above	6.0%	7.8%

Key growth areas for elites include new acquisition strategies, targeting new client segments, deeper penetration with existing clients, and pursuing advisors and their books.

Elite advisors also drive business through referrals

Elite RIAs estimate that 38% of their growth is driven by client referrals, an experience that outpaces that of other advisors. Elite RIAs are also more likely to receive referrals from other professionals, including CPAs (68% for elite RIAs vs. 61% for other advisory firms) as well as attorneys and law firms (53% vs. 32%). Only 9% of elite RIAs say they don't receive referrals from other professionals.

Elite advisors are more likely to screen prospects.

According to the survey, 86% of elite RIAs screen referrals for suitability, compared with 78% of other firms. This may include screening for AUM or income minimums, as well as to make sure prospective clients are a good fit for the advisor's chosen niche. This targeted approach has led to greater

success converting prospects to clients, with 59% of elite RIAs closing at least 75% of their referrals.

KEY TAKEAWAYS:

- > Ask clients to fill out a satisfaction survey as part of their annual review. This may give you an opportunity to ask satisfied clients if they know of other people who might benefit from your expertise. Be prepared to tell your clients exactly what kinds of prospects you're looking for, and why you're uniquely qualified to help these kinds of investors.
- > In seeking introductions to other professionals, you might begin with those who serve your own clients. You might offer to contact a client's CPA or estate attorney to discuss

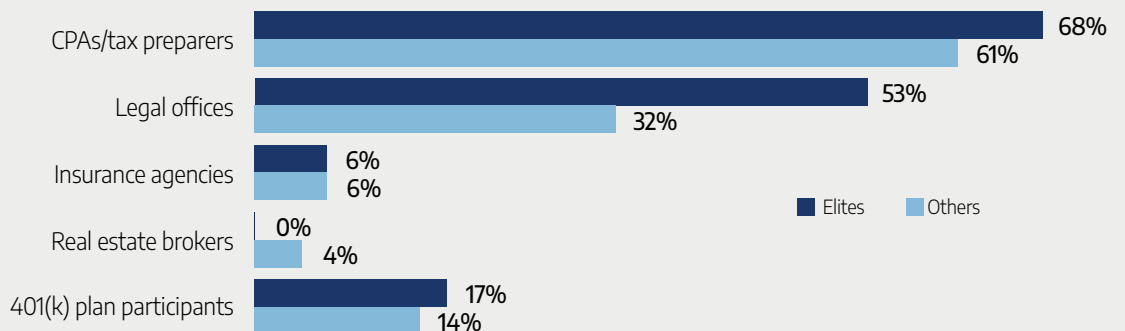
Prospecting: Elites firms have more robust pipelines

How much of your growth is driven by:

Source	Elite Advisers	All Other Advisers
Existing clients	25%	28%
Client referrals	38%	33%
Professional referrals	18%	16%
Business development	17%	19%
Other	2%	4%

What are the most effective centers of influence in driving referrals to your firm?

Elites more likely to have referral program with CPAs, attorneys and plan sponsors



Source: 2020 Elite RIA Study, INResearch, InvestmentNews

an important issue. This enables you to make contact with this professional, while also adding more value in a core client relationship.

- > While CPAs and attorneys are obvious sources of professional referrals, you might also consider other centers of influence who work with people at decision points in their lives. These might include real estate brokers, 401(k) plan administrators, senior care specialists, or wedding planners.
- > Consider establishing a minimum AUM level for potential clients to make sure you're pursuing investors who make sense for your business. For younger investors in the asset-building phase, you might waive AUM screens and focus instead on minimum income levels. This can help ensure you're growing your business for the future.

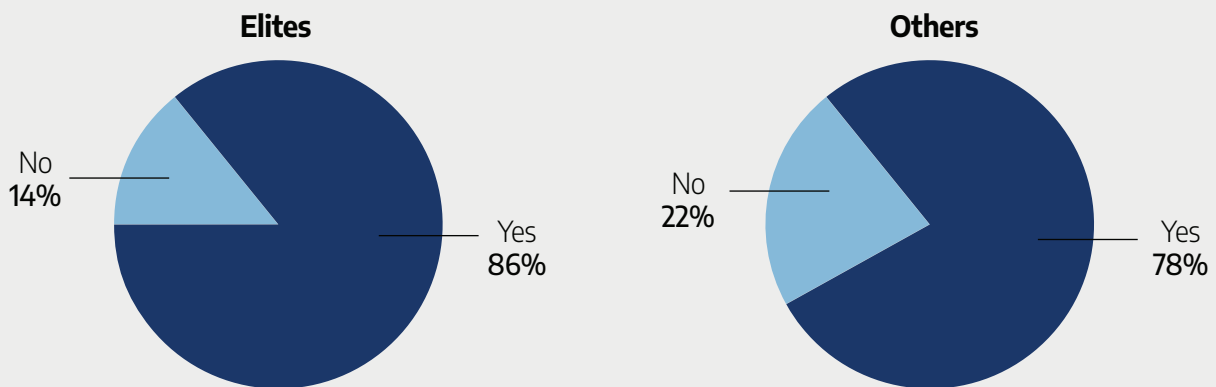
Elite RIAs took a proactive approach during the pandemic

The COVID-19 pandemic was gripping the nation when the 2020 Elite RIA survey was conducted. As part of the study, advisors were asked how prepared they were to meet the challenges of this period. Responses from elite RIAs reflected how a proactive, flexible business strategy can help firms adapt to the unexpected.

Technology was a key differentiator. Nearly 89% of elite RIAs reported that their existing technological capabilities helped them adapt to the changing business needs of pandemic, an answer given by only 65% of other advisors. Nonetheless, 26% of elite RIAs also made additional technology investments to meet the moment, compared with 19% of other advisors.

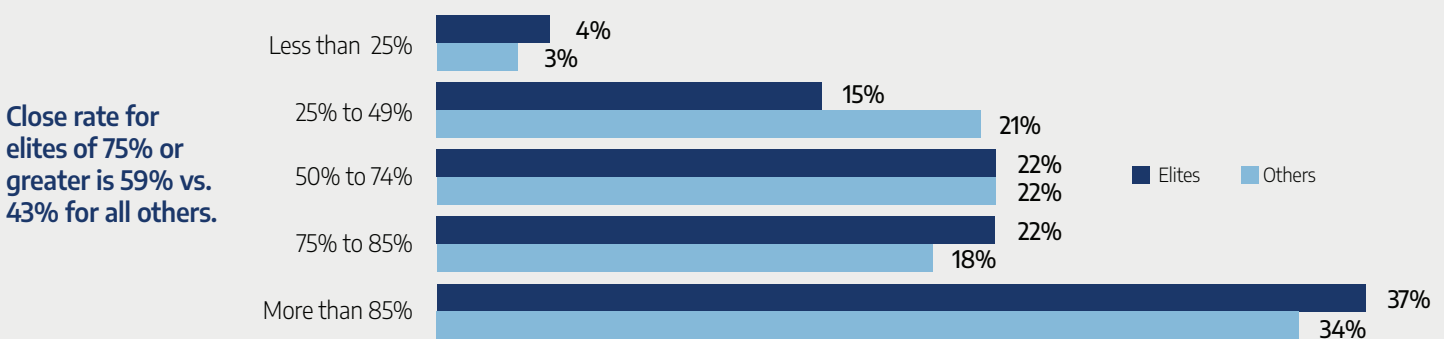
Prospecting: More targeted referral strategy leads to more success

Does your firm screen referrals for suitability?*



* Excludes respondents who were not sure

What is your close rate on referrals?



Close rate for elites of 75% or greater is 59% vs. 43% for all others.

Source: 2020 Elite RIA Study, INResearch, InvestmentNews

Elite RIAs looked for more ways to reach out to clients.

Elite Advisors were more likely to use technology to support client communications. For example, 72% of elite RIAs made more use of virtual meetings during the pandemic (compared with 59% of other advisors). Additionally, 46% of elite RIAs increased their usage of email communications, while 26% made more use of social media. Only 7% of elite RIAs reported no change in their marketing approach.

Elite RIAs took advantage of remote working.

In early April, 83% of elite firms said that all or most of their employees were working remotely, compared with 69% of other firms. The percentage of at-home workers declined as the pandemic continued, but more elite firms reported that at least some of their employees would continue to work remotely into the fall of 2020.

Elite RIAs expect to report better revenue growth for 2020, despite the pandemic.

In part because they were nimbler in adapting to this environment, elite RIA firms were forecasting, on average, 4.7% revenue growth for 2020. This compared with just 2.6% forecasted growth for other firms.

KEY TAKEAWAYS:

- > As the recent pandemic has shown, rare but high-impact events may have tremendous implications for your business. It's a good idea to conduct a risk assessment at least annually, focusing on potential events that could disrupt your business or affect your client experience. Make some plans to mitigate or address these risks, and make sure your business insurance and succession plans are updated.

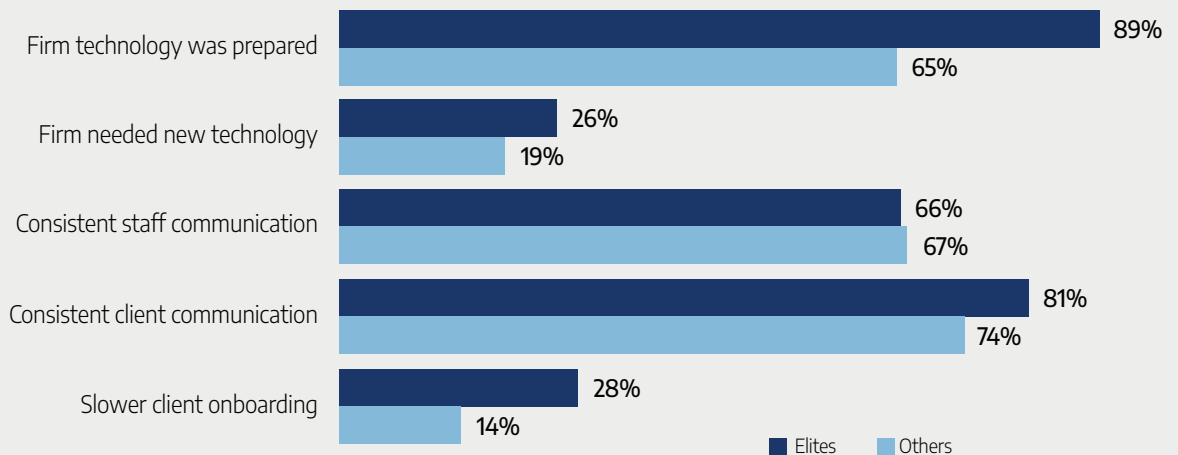
Elite firms had smoother operations in pandemic's wake

Remote working over time

Period	Elite RIAs	All Others
Early April	83%	69%
Mid-June	47%	46%
Early September	38%	34%

% of firms with all or most employees remote

Do you agree that the following has occurred at your firm since the pandemic? (Net)



Source: 2020 Elite RIA Study, INResearch, InvestmentNews

> Many clients may come to appreciate the convenience of virtual meetings, even after the pandemic, especially if they have health or family considerations. Offering clients the flexibility of this option, along with other strategies such as digital signing capabilities, may be another way to enhance the client experience.

> You might use the pandemic as an opportunity to remind clients of your contingency plans and responsiveness. This kind of reassurance will give them confidence that your firm will be there to meet their needs no matter what.

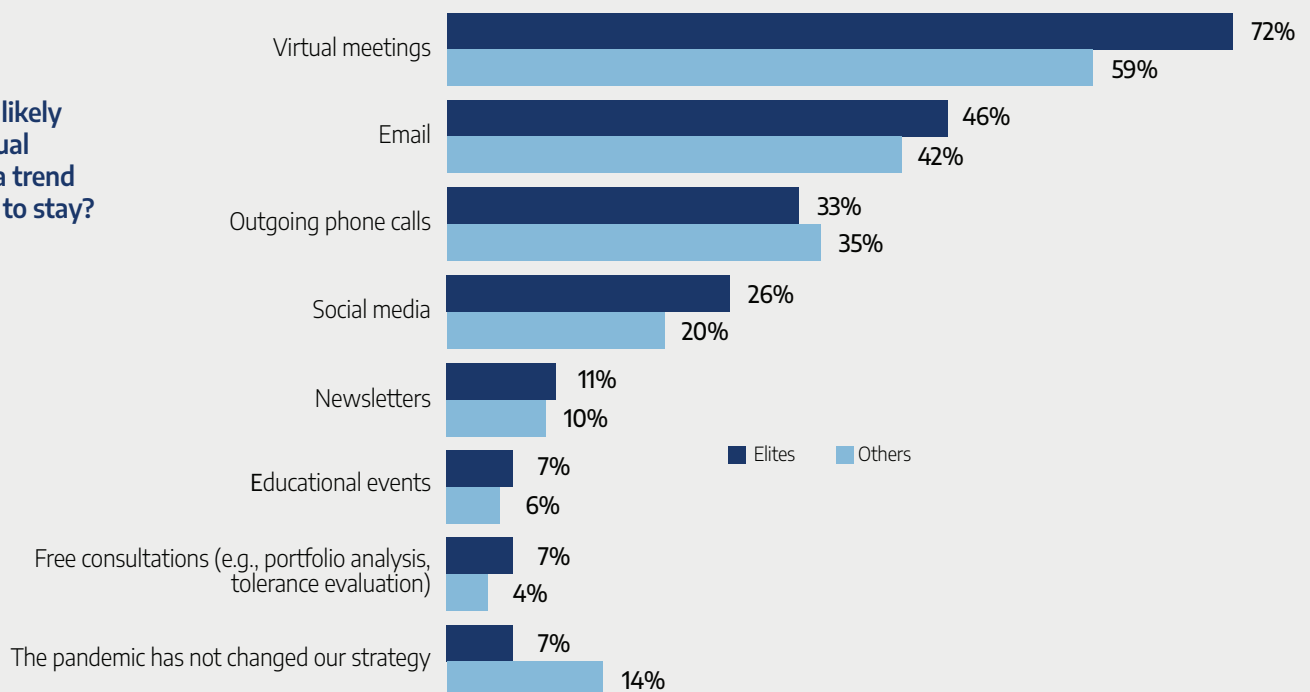
Elite firms more likely to have adjusted business strategy

Growth in average projected 2020 revenue



Which strategies have been more important in prospecting since the pandemic?

Elites more likely to hold virtual meetings...a trend that is here to stay?



Source: 2020 Elite RIA Study, INResearch, InvestmentNews

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