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The 2023 RIA Edge Study

The Drivers of Growth & Success in the RIA Industry

Produced by:

WealthManagement iQ

A division of WealthManagement.com

Contents

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Foreword

The past several years have been a time of rapid growth and profitability for RIA and hybrid wealth management firms. Tailwinds in the form of rising equity markets, rising affluence in the key demographic segments of near-retirees and the recently retired, and rising client demand for a range of wealth management services beyond investment advice led to enviable bottom-line results. Even during the pandemic, which had severe consequences for many businesses, most wealth management firms prospered and many drew the attention of buyers from outside the industry.

The start of the Federal Reserve Board's program of interest-rate tightening in March 2022 marked a turning point. While positive demographic forces remain at work, underscoring the industry's bright long-term prospects, higher interest rates and a more uncertain economy have created challenges not only in meeting client expectations but also in achieving growth and profitability goals.

This year's RIA Edge Study examines how RIAs and hybrid advisors are viewing and addressing those challenges. From our work in providing a range of consulting and investment banking services to wealth management firms, we can corroborate this study's statistical findings. Issues of growth — whether organic or through acquisition — succession and firm ownership continue to be top of mind for firm owners and executives.

We believe this report will be useful in helping firm leaders successfully deal with these challenging issues as their firms continue to provide the valuable services their clients require.

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Respondents at a Glance

Firm Type

2022		2023
36%	RIA	36%
17%	IBD	19%
10%	Insurance firm	11%
11%	Dually registered/hybrid	10%
6%	Regional firm	7%
5%	Wirehouse firm	6%
5%	Bank brokerage	5%
10%	Other	8%

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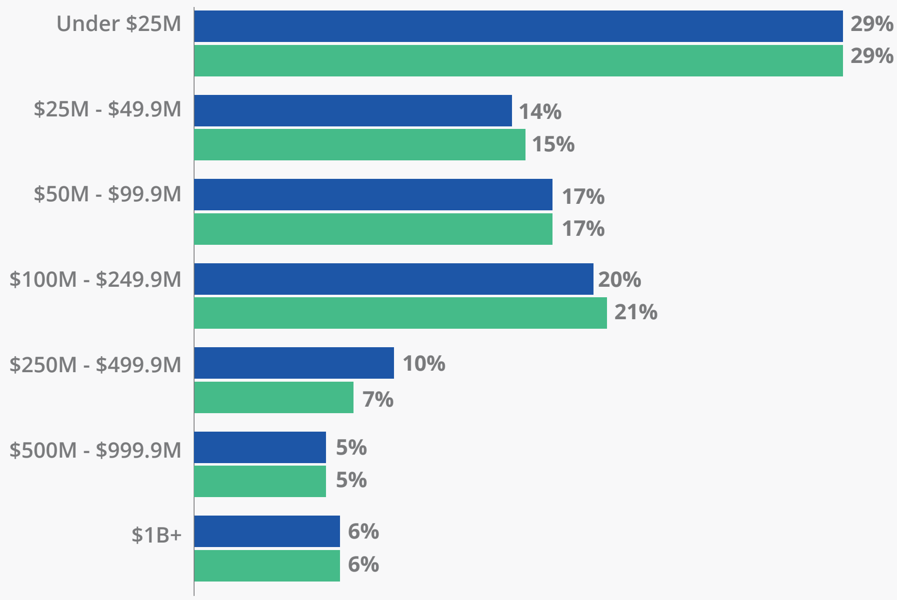
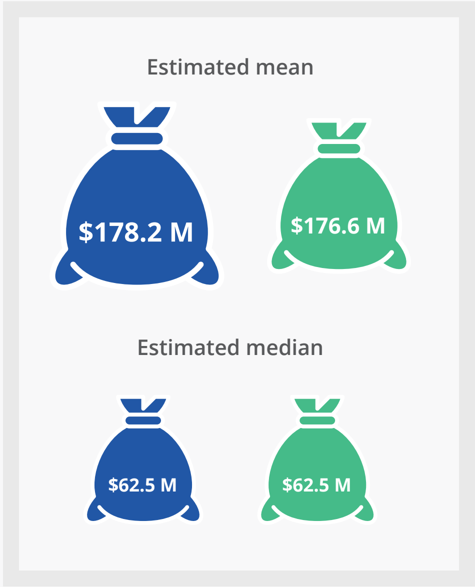
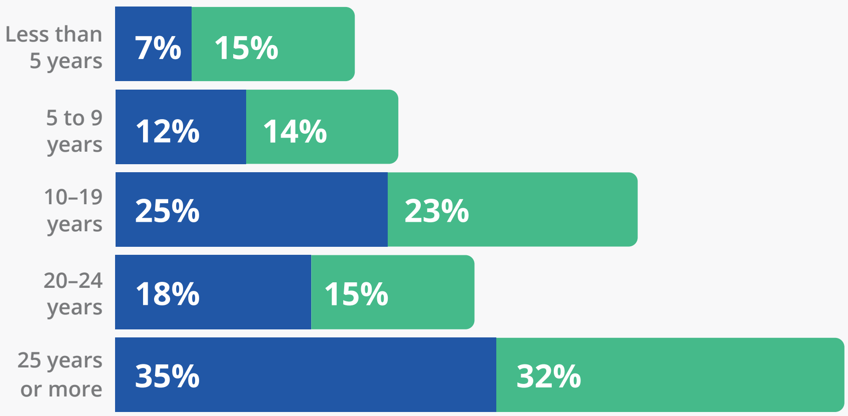
Respondents at a Glance

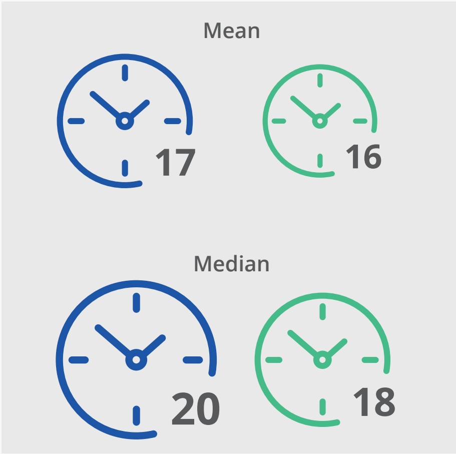
Total Assets Personally Managed



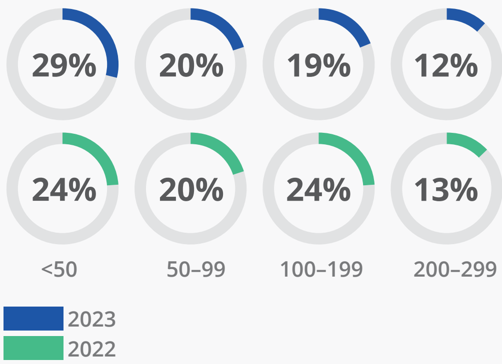


Length of Tenure as a Financial Advisor

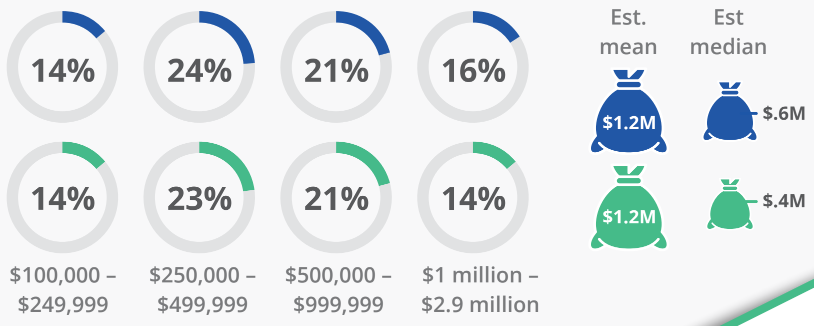




Number of Clients



Average Account Size



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Introduction and Highlights

Once representing a small fraction of the wealth management business, the Registered Investment Advisory channel has grown into an industry leader and pacesetter, delivering an ever-widening array of services to an expanding market. RIAs now manage a total of $114.1 trillion in assets, employ 971,000 individuals and serve 61.9 million clients across the full spectrum of investment managers, investment advisors and wealth managers.[1] Also growing in numbers and influence are hybrid providers of advice who are affiliated with broker-dealers and registered investment advisory firms. Over the past five years, assets under management at hybrid firms grew by an average of 44.5%.

To understand this dynamic business more fully, we launched the first-ever RIA Edge Study last year. It provided an in-depth look at revenue models, ownership changes, drivers of firm value, marketing trends, and staffing. This year's RIA Edge Study adds to that body of data and represents the first step in developing a historical trend line in advisory firm data.

Assets under management at hybrid firms grew by an average of 44.5%.

For hybrid and RIA advisors and their firms a tumultuous 2022 — which saw high inflation, the start of steady monetary tightening by the Federal Reserve and historic tumult in equity and fixed-income markets — led to a variety of changes in operations and expectations.

The following highlights of the most recent research reveal many of those key changes, as well as areas where advisors' views remained consistent:

More moderate growth expectations. On average, advisors expect revenue growth of 23.5% for 2023, as compared with a mean expectation for growth of 27.7% in 2022. Mean earnings before interest, taxes, depreciation and amortization growth expectations also have moderated, from 24.6% to 18.7%, as did asset growth targets, from 27.5% in 2022 to 22.7%.

Slightly lower expectations for organic growth. Last year, organic growth (which excludes mergers and acquisitions, recruiting and market appreciation) was expected to be the driver of 28.4% of the growth in managed assets; this year, the expectation is that it will account for 24.6% of the growth, perhaps due to lower expectations for the effectiveness of social media as a marketing tool.

Little or no change in fees. As was the case last year, nearly three-quarters of respondents anticipate no change in firm fees. Of those considering fee changes, 25% are planning or considering an increase in fees, up from 22% last year. A handful are considering or planning fee cuts.

A cooler M&A market? In comparison to last year, when 53% of respondents felt that the M&A market favored sellers, this year the view is more mixed. Just 32% see it as a seller's market, 31% consider it a buyer's market (up from 18% a year ago), and 25% are not sure (vs. 23%). In addition, 12% say it is neither a buyer's nor a seller's market, compared with 7% who felt that way a year ago.

Digital marketing and social media lose their luster. While results indicate that social media remains the most leveraged marketing tool, firms appear less impressed with its ability to drive qualified leads and are emphasizing in-person activities. Investments to drive a more impactful digital footprint and improve overall digital marketing efforts also saw a decline, as more firms "revert to the mean" and focus on familiar, traditional organic growth methods (i.e. referrals).

Less aggressive hiring plans. Unlike last year when 47% of respondents said they planned to add full-time positions, this year only 37% had such plans. The only positions for which hiring plans are greater were advisor and junior advisor/paraplanner.

The complete survey findings contained in the following pages are intended to provide managers of wealth management businesses with insights useful to operating more successfully and profitably in the years ahead.

[1]"Investment Adviser Industry Snapshot 2023," the Investment Adviser Association and National Regulatory Services

A Comprehensive Look at Growth

In the wealth management business, growth takes many forms. Increases in assets under management, revenue, profitability and firm size are key growth measures. This year, growth in assets under management (AUM) continued to be viewed as the single most important form of growth (the first choice among 58% of respondents this year and last), followed by growth in revenue (the first choice of 28% of respondents this year and 29% last year) and growth in earnings before interest, taxes, depreciation and amortization (14% vs. 12%).

Across these metrics, advisors and their firms were somewhat less expansive in 2023 than they were a year earlier.

The mean 2023 growth target for assets under management among respondents is 22.7% as compared with a target of 27.5% in 2022. Revenue growth of 23.5% is this year's target versus a target of 27.7% last year. Similarly, EBITDA is targeted to grow by 18.7% this year, down from 24.5% in 2022.

Most respondents (61%) report having formal growth targets in place, a percentage somewhat lower than in 2022 (67%).

Regarding growth in AUM, respondents say that 24.6% of that growth, on average, will come organically, which means growth that excludes mergers and acquisitions, recruiting and market appreciation. Last year, the mean estimate for organic growth was 28%. The three most-cited drivers of organic growth — increasing referrals from existing clients, increasing the number of new prospects in existing regions/markets, and raising awareness of the firm's brand and capabilities — were the same as in 2022, and in very similar proportions to last year. Somewhat fewer respondents, however, felt that growth would come from greater awareness of their firm's brand.

To a greater degree than last year, respondents anticipate that revenue growth will come from traditional sources led by referrals, new business from current clients, business development and market appreciation, to name the three leading drivers. Digital marketing was deemed less important as a contributor to revenue growth than it was a year ago.

Why? With the most volatile market environment in more than a decade hitting the AUM of RIAs and clients – at the same time that interest rates and inflation skyrocketed – 2022 forced many advisory firm leaders to pull back on discretionary and new areas of investments in an attempt to maintain profit margins. While short-sighted, new investments with longer-term ROIs, such as digital marketing tools and tactics, were put on the back burner by many in favor of more traditional methods of business development and sales.

What is the single most important form of growth?

Growth in assets under management (AUM)

58%

Growth in revenue

28%

Growth in EBITDA

14%

Where will the growth come from?

Growth in AUM

Organic

Referrals, new prospects, brand awareness

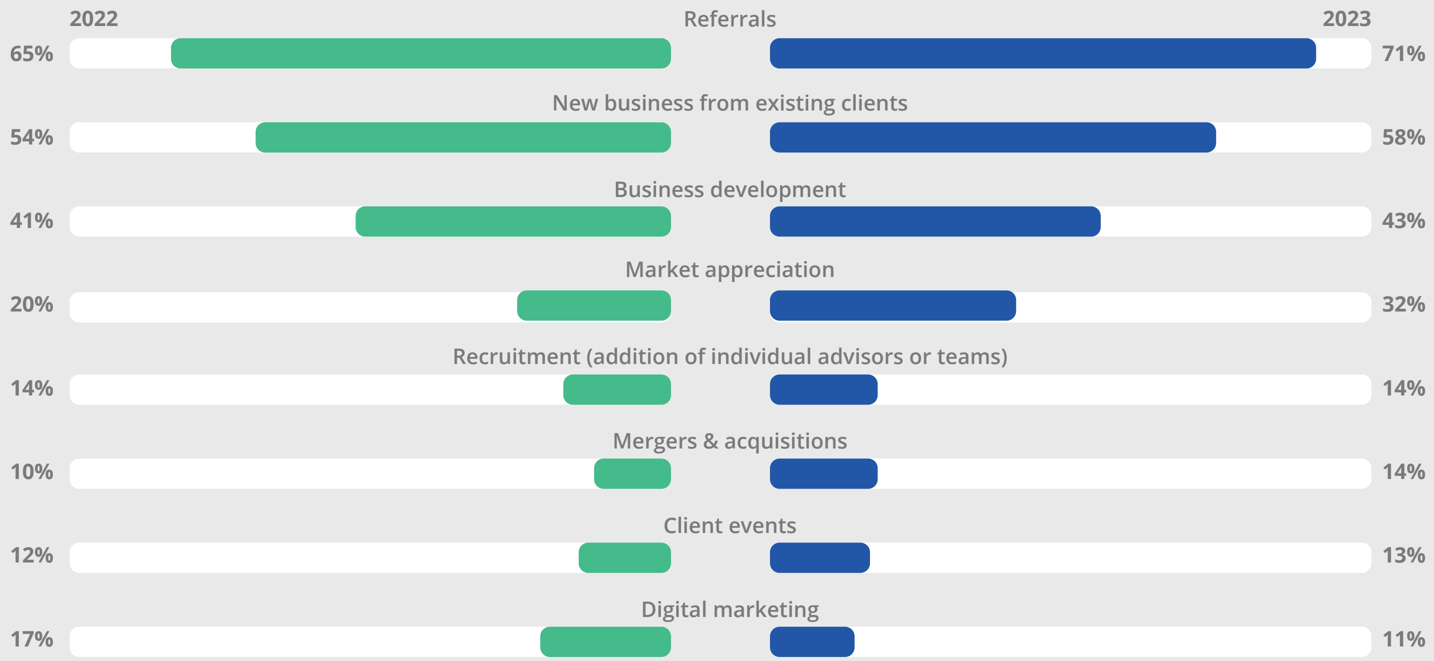
Growth in revenue

Traditional

Referrals, new work from clients, BD, market appreciation

The figure below demonstrates the rankings of key contributors of growth in 2023 vs. 2022, and showcases how much advisors have sharpened their focus on 1-to-1 sales approaches to drive growth, vs. broader and longer-term tactics and strategies:

Key Contributors to Firm Growth



Which aspects of a firm's organization and management will be the single-most important driver of growth this year? In responses that were virtually identical to last year, respondents ranked improved workflows, operations and efficiency as their leading choice (30%), followed by the ability to attract new talent (23%), expansion and enhancement of wealth management services (21%), the successful execution of a merger or acquisition (9%) and broader application and use of technology (8%).

When rating their firm's effectiveness in achieving its growth goals, respondents held opinions very similar to last year. Approximately four in ten consider their firms "very" or "extremely" effective in the areas of business development and client acquisition, identifying strategic growth opportunities, generating referrals, and marketing and branding. In each of those areas, respondents were slightly less positive in their responses than last year.

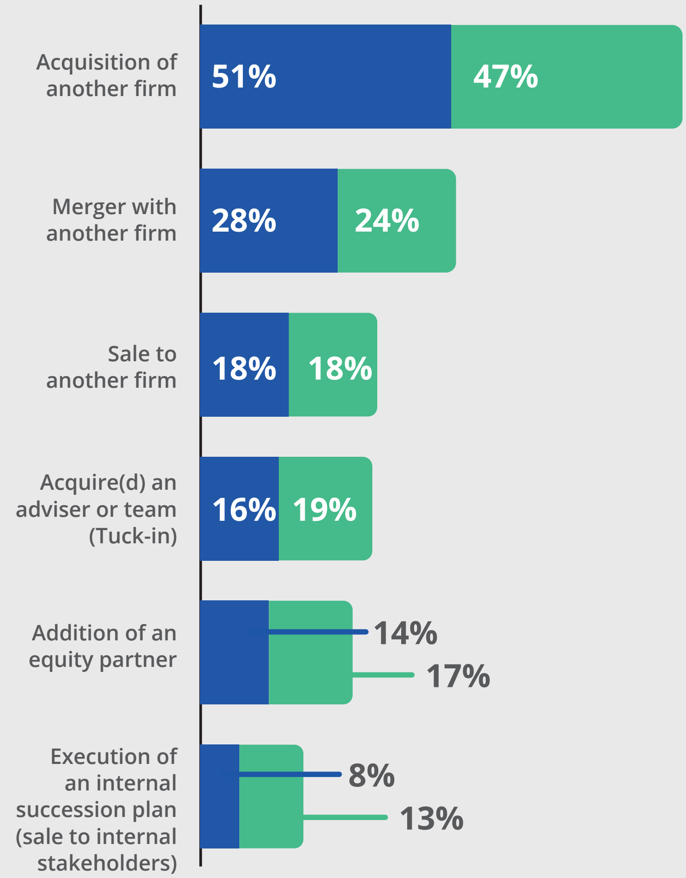
Outlook for M&A, Succession and Firm Value

Whether due to higher interest rates, market volatility or other factors, survey respondents were less likely to believe 2023 will be another record-setting year for the number of deals set in the RIA industry than their counterparts in 2022. This year, 41% indicated that 2023 "definitely" or "probably" would be a record year, while 51% of 2022 respondents expressed that degree of positivity.

While the recent torrid pace of mergers and acquisitions in the advisory business may cool, roughly one in five survey respondents said their firm participated in a merger, acquisition or other type of transaction within the last two years, a response result similar to numbers in 2022. Among those participating in ownership-related transactions, the typical respondent reported an average of three transactions in the last two years.

Transaction types were very similar over the two time periods: This year, 51% of those whose firm was involved in a transaction in the previous two years were acquirers, while 28% engaged in a merger with another firm, and 18% engaged in a sale to another firm. Sixteen percent of respondents said they acquired an advisor or a team and 14% said they added an equity partner.

Transaction Type, Last 2 Years



What were the primary motivators for pursuing a merger, acquisition, or tuck-in varied over the last two years and how has it changed over the last 12-months? In 2023, two motivators emerged as near-equal front-runners: Cited by 48% of respondents was "A growth opportunity with a strategic client base," followed by "to increase overall revenues," at 46%. Last year, those motivators were cited by 53% and 33% of respondents, respectively. The second-most important motivator for a transaction in 2022, cited by 41%, was "a growth opportunity in a strategic geographic location," which was the third-most important motivator this year, cited by 32%.

Respondents cited the three primary motivators for pursuing a sale, partial sale or an internal succession plan — to receive capital and resources from a strategic investor, as part of an exit or retirement strategy, or as an opportunity to receive a premium value for the firm — but since the sample size was quite small the data should be used with caution.

Over the past two years, the challenges encountered in acquisitions have changed significantly. In 2022, when asked to identify the top two challenges, respondents cited integrating technology platforms and operations (43%), identifying acquisition targets (37%) and finding appropriate cultural fits (31%). This year, cultural fit was deemed most important (37%), followed by agreeing on deal values (35%) and retaining client's targets after the acquisition (31%). Integrating technology platforms and operations was considered a top concern by only 26% of respondents.

Finding appropriate cultural fits, agreeing on deal values and retaining clients post-acquisition were the top three challenges encountered among those who were involved in selling their business over the past two years — similar to the concerns of sellers in 2022 — but the small sample size of sellers suggests caution in using the data.

Slightly more than half of respondents (56%) say they plan to explore some form of ownership transaction this year, almost identical to the 53% who responded similarly in 2022. Also similar to last year are the plans of respondents, 19% of whom said they plan to acquire a firm, execute a succession plan (17%), acquire an advisor or a team through a tuck-in (16%), merge with another firm (9%), add an internal equity partner (8%), buyout an equity partner (7%), sell to another firm (5%), or sell a portion of the business (5%).

Primary motivators for mergers, aquisitions or tuck in

A growth opportunity with a strategic client base
48%

To increase overall revenues
46%

Acquistion challenges

Cultural fit
37%

Deal value
35%

Client targets
31%

Integration
26%

Slightly more than half of respondents (56%) say they plan to explore some form of ownership transaction this year

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Less of a Seller's Market: Does the current market for advisory firms favor buyers or sellers? In 2022, more than half of respondents — 53% — said that the M&A market clearly favored sellers. That is not the case in 2023; while 32% of respondents from firms of all types currently believe the market favors sellers, an almost equal number, 31%, believe it favors buyers.

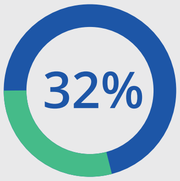
Respondents from pure RIA firms, however, still believe the current M&A market favors sellers (41%) over buyers (19%). Last year, however, 63% of RIAs saw M&A as a seller's market and 12% as a buyer's market, indicating a marked decline in bullishness. There also has been an increase in uncertainty about the market on the part of RIAs, with 14% saying that current conditions favor neither buyer nor seller (up from 5% last year) and 26% not sure, up from 19%.

Given the strong market for advisory firms in recent years and the interest in a possible transaction, it may strike some as surprising that fewer than one quarter of respondents (22%) have conducted a formal valuation of their firm, although that is two percentage points higher than in 2022. Yet while a majority of respondents therefore don't have a figure for the objective value of their firm, 41% said the value would increase by 20% or more over the next two years while 33% said it would rise between 10% and 19%. Fifteen percent said value would increase up to 9% while 9% said it would remain unchanged.

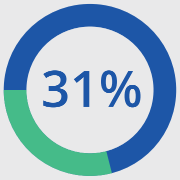
The factors having the most influence on value over the next two years, respondents said, would be market performance (69%), change in demand for wealth managers (39%) and regulation (29%). Responses were similar in 2022.

Just as relatively few firms have conducted a formal valuation, only a minority (46% vs. 45% in 2022) have a formal succession plan in place. While 31% (versus 30% last year) don't have a succession plan but intend to develop one over the next 18 months, 23% (vs 25%) neither have a plan nor intend to put one in place.

Who do firms favor?



Sellers



Buyers

Fewer than one quarter of respondents (22%) have conducted a formal valuation of their firm

Factors influencing value

69% Market Performance

39% Demand for wealth managers

29% Regulation

Only a minority of firms (46% vs. 45% in 2022) have a formal succession plan in place

Marketing Trends: Reconsidering Social Media

While still the most-used tool in the wealth management firm marketing kit, social media seems to have lost some of its luster. Engaged in by 52% of respondents, compared with 56% in 2022, social media is now seen as considerably less effective than hosting in-person networking or client events in driving qualified leads to firms.

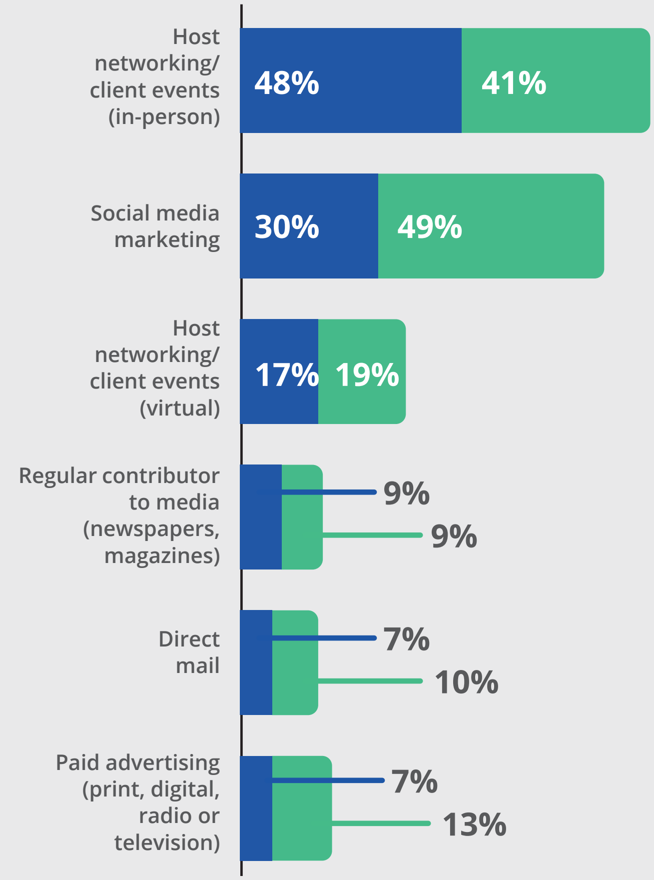
Overall, respondents don't seem especially enthused about their firm's marketing efforts. When asked to rate the effectiveness of their firm's marketing and branding on a one-to-five scale (with 1 equal to "not at all effective" and 5 equal to "very effective"), the mean response was 3.1, unchanged from the last survey.

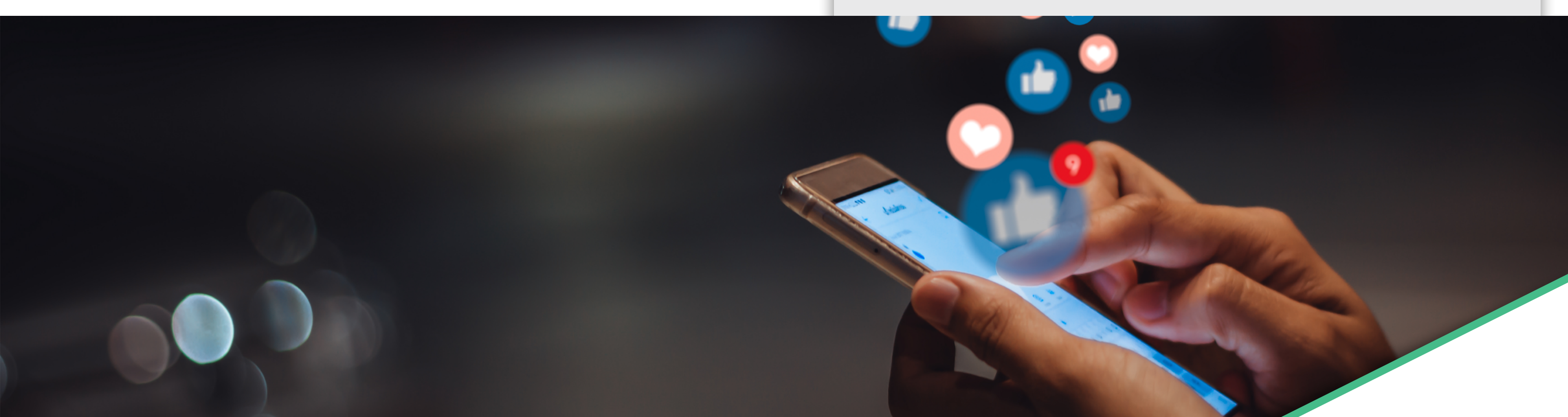
In specific areas, 45% said their firm was somewhat effective in business development and client acquisition, while 32% said it was very effective. In generating referrals, 48% said their firm was somewhat effective; 30% said very effective. In identifying strategic growth opportunities, the response was 46% somewhat effective and 32% very effective.

As a result of respondents' mixed feelings, perhaps it is not surprising that compared with the 58% of respondents who said their firm would increase its investment in marketing activities and strategies in 2022, only 49% of the 2023 respondents gave a similar response. In fact, 5% said their firm would decrease its marketing spending this year versus just 2% who indicated less spending in 2022. The "stay the same" response was 47% vs. 38%.

Finally, just over half (52%) of respondents said their firm directly incentivized advisors to acquire new clients, which is down from 58% last year.

Activities Most Effective in Driving Qualified Leads





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Positions Firms are Planning to Add

A Less Aggressive Approach to Hiring

Respondents in 2023 are notably less likely to add new full-time positions by year-end than were respondents in 2022. Just 37% said they were likely to be adding positions this year, compared with 47% who had hiring plans last year. Respondents also were more convinced they wouldn't be hiring — 37% vs. 34% last year — and more were unsure (26% vs. 21%).

Junior advisor/paraplanner and operations/administration continue to be the two top positions firms plan to add, although slightly more respondents this year than last indicated plans to hire a junior advisor while slightly fewer had plans to hire an operations staffer. In a stronger third-place position this year was a lead advisor position. Becoming less important in hiring and expansion plans were the roles of marketing professional (19% vs. 26% in 2022), portfolio manager (16% vs. 21%) and research analyst (16% vs. 21%).

Slightly more than half of respondents said their firm had no full-time role dedicated to marketing, business development, technology or management, while 68% had a full-time investment management role, down from 73% a year ago.

Cited by 44% of respondents, technology was the leading role that firms outsourced, which was unchanged from 2022. That was followed by investment management at 20%, also unchanged, and marketing at 19%, down from 22%.

Takeaways

While respondents expressed optimism about the growth potential of their firms, their responses indicate a modest tempering in the enthusiasm expressed last year.

This was evidenced in the following ways:

- **More moderate expectations for growth in assets under management, revenue and profitability.**
- **Continued expectations of a seller's market in M&A, although to a lesser degree than last year.**
- **A strong emphasis on organic growth to drive a larger share of overall firm growth in assets and revenues.**

Much, however, has not changed – which can be telling in and of itself. Advisors' views of future valuation for their firm have not changed since last year, with roughly **70% of all participants indicating that their firm value will increase by at least 10%** over the next two years. This, following one of the most difficult investment environments in market history, is a remarkable sentiment and outlook and speaks to the enormous potential growth opportunities that still exist for RIAs and wealth managers.

Research Methodology

Methodology, data collection and analysis by WealthManagement.com and RIA Edge in cooperation with MarshBerry. Methodology conforms to accepted marketing research methods, practices and procedures.

Beginning on July 19, 2023, WealthManagement.com emailed invitations to participate in an online survey to active users. By July 30, 2023, WealthManagement.com had received 367 completed responses. Comparative data collected January 25, 2022 through February 15, 2022, resulted in 419 completed responses.

To encourage prompt response and increase the response rate overall, email invitations and survey materials were branded with the WealthManagement.com name and logo to capitalize on user affinity for this valued brand. Each respondent was afforded the opportunity to receive a $10 Starbucks gift card as a token of appreciation for their participation in the survey.

Founded in 1981, MarshBerry is a global leader in financial advisory and consulting services serving the insurance brokerage and wealth management industries to help clients grow and advance their business strategies. With locations across North America and Europe, MarshBerry market sector expertise includes property and casualty agents & brokers, employee benefit firms and specialty distributors, partners in insurtech, capital markets, and insurance carriers, as well as registered investment advisors, retirement planning and life insurance firms. Clients choose MarshBerry as their trusted advisor for every stage of ownership to help them build, enhance and sustain value through Financial Advisory solutions (Investment Banking; Merger & Acquisition Advisory, Debt & Capital Raising, Business Consulting), Growth Advisory solutions (Organic Growth, Aggregation, Leadership, Sales & Talent Solutions) and Market Intelligence and Performance Benchmarking.

Wealth Management IQ is a dedicated division of Informa Connect that provides research, content creation and marketing services to the wealth and asset management communities. WMIQ offers a unique combination of:

- Deep research and analytical capabilities
- Extensive knowledge of the financial advice industry
- Content strategy and direct distribution to over 400,000 wealth management professionals

The mission of WMIQ is to educate and inform financial advisors through our research content and to provide unparalleled access, intelligence and understanding of the wealth management market to the companies that support and empower advisors.

Through the audiences of WealthManagement.com, Trust & Estates and WMRE, which covers commercial real estate, WMIQ has the ability to tap into some of the most influential communities of financial advisors to conduct targeted surveys, focus groups and one-on-one interviews to inform our research projects. Our audiences of RIAs, IBDs and wirehouse advisors—and their affinity for our brands—position WMIQ to access more engaged advisors than any other industry research provider. This reach across the entire wealth management ecosystem is a unique differentiator of WMIQ and allows us to discover the true drivers of change, behaviors and influence throughout the industry.

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