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Advisor Services

Balancing scale and personalization

Results from the 2023 RIA Benchmarking Study from Charles Schwab

GPS
Guiding Principles Series™

About the Schwab Guiding Principles Series™

The Guiding Principles Series (GPS) is based on the Guiding Principles for Advisory Firm Success, a foundational framework that helps advisors address the complexities of growing their firms and creating enduring enterprises. Grounded in the best practices of leading independent advisory firms, the GPS delivers relevant and timely information to help advisors solve their unique challenges and strategically manage and grow their firms. The GPS includes industry-leading studies, resources, and tools from Schwab that are designed to help advisors explore innovative concepts and obtain new insights as they set the strategies that propel their firms to new levels of growth.

For over 30 years, Schwab Advisor Services™, the leading custodian of nearly 15,000 registered investment advisory firms, and Schwab Business Consulting and Education have been working hand in hand with advisors, leveraging our deep expertise in core business issues to help firms achieve their goals and gain competitive advantage. Schwab's collaborative approach leverages the guiding principles to help advisors benefit from proven practices of the industry's most successful RIA firms.

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Introduction

Despite the challenges of 2022, the Registered Investment Advisor (RIA) industry continues to be strong. Clients have been leaning on their advisors more than ever, and those relationships have helped contribute to organic growth[i] through both referrals and share of wallet increases. Results from the 2023 RIA Benchmarking Study highlight key insights that can help firms assess their performance and identify opportunities to drive long-term success. This paper also describes opportunities in investment strategies.

In 2022, volatile market conditions, inflationary pressures, and geopolitical uncertainties took a toll on investor confidence and created headwinds for RIAs. Assets under management (AUM) decreased 5.1% at the median for firms under $250 million in AUM and decreased 7.6% for those with $250 million or more in AUM. Revenue growth in 2022 was 4.1% for all firms,[ii] compared with 24.5% the prior year.

Organic growth, which is more controllable regardless of market conditions, was a bright spot. Net asset flows contributed 6.2% to AUM growth for smaller firms and 4.1% for larger firms at the median, with investment performance accounting for the overall decrease in AUM. In fact, assets from new clients and assets from existing clients both reached their second-highest point in five years. And client retention—which has stayed at 97% for five years—continued to demonstrate the trust clients place in their advisors.

New client growth remained healthy in 2022. All firms saw a 6.2% increase in the number of clients at the median, which was in line with the 6.2% annualized rate from 2018 through 2022. Smaller firms added 11 new clients, and larger firms added 34.

A subset of firms—Top Performing Firms[iii]—consistently achieve stronger results. For Top Performing Firms, net asset flows contributed 10.8% to overall AUM growth. These firms also attracted 55% more new clients and saw 2.3 times more growth in assets from new clients, at the median, than all other firms in 2022. Their strong client acquisition may result from foundational elements these firms tend to have in place, such as a strategic plan, ideal client persona and client value proposition, and documented marketing and referral plans. Page 7 provides more information and details about the methodology used to identify Top Performing Firms.

> "As more investors choose RIAs, firms can manage growth by using scalable processes to create capacity for personalization strategies. Personalization allows advisors to differentiate their offer—in how they interact with clients, the services they provide, and their investment approach. Deepening the relationship in this way will help create enduring enterprises and lasting success."
>
> **Lisa Salvi**
> Managing Director, Business Consulting and Education
> Charles Schwab Advisor Services

Notable themes

Referrals are the backbone of organic growth. Assets from new clients constitute the majority of organic growth, with the median firm in the study gaining nearly four times more assets from new clients than existing clients in 2022. For all firms, referrals—from clients and business partners—remain the leading driver, accounting for 70% of new clients and 69% of new client assets. There is an opportunity for firms to develop referral plans—across the study, only 34% have client referral plans and 25% have business partner plans documented—and results have shown that those with written plans saw stronger outcomes from those channels. In 2022, firms with existing client referral plans generated 1.6 times more new clients representing 1.6 times more new client assets from that channel, and firms with business partner referral plans gained 4.0 times more new clients representing 5.1 times more new client assets from that channel, compared with firms without referral plans.

Highlights from the 2023 RIA Benchmarking Study:

- 1,300 RIA firms participated, representing over $1.7 trillion in AUM.
- While 2022 presented challenges—AUM decreased 7.1% for the median firm—the industry continues to be strong, with organic growth and client retention results demonstrating the enduring appeal of the independent model.
- An employee value proposition, which 40% of all firms have documented, is essential to attract and retain talent.
- Firms with a client segmentation strategy saw improved productivity—managing more clients per professional at the median—than those without one.
- Personalized interactions and investment strategies can help advisors differentiate themselves and build trusted, long-term relationships.

Firms with referral plans achieved stronger results from those channels in 2022, compared to firms without them.

Inorganic strategies can drive growth. Inorganic activity also helped fuel growth, with another record level of mergers and acquisitions (M&A) in 2022.[iv] Over the last five years, 19% of firms acquired new clients through M&A and 24% brought on an advisor with a book of business. Looking ahead, half of firms are pursuing an inorganic strategy. It's important to remember that inorganic opportunities require thoughtful evaluation, because they can profoundly affect a firm's organization, culture, and long-term strategy.

All firms that had inorganic activity[v] in the past five years grew assets and clients at an annualized rate of 11.8% and 7.9%, respectively, from 2018 through 2022, compared with 8.3% and 5.4% for firms that have not engaged in inorganic activity over that period.

Firms turn to M&A for many reasons besides growth. For example, M&A can serve as a:

- Talent strategy to acquire people and/or services to meet client needs
- Way to create scale
- Succession solution
- Means to expand career paths for employees

With nearly 40% of advisors anticipating retiring or stepping back from their businesses over the next decade, and with one in four of these advisors unsure of their succession plan,[vi] consolidation will continue providing a means to succession. When asked what strategies are under consideration for succession, 39% of all firms in the study reported selling, merging, or acquiring another firm.

Investing in talent fosters success. Firms recognize that talent is essential to growth and long-term success. Across the study, firms rank recruiting talent as their number-two strategic priority. Seventy-seven percent of firms hired in 2022, and 75% reported plans to hire in 2023. Firms are casting a broad net to attract candidates, recruiting new talent from colleges and universities (37% of firms), as well as more experienced talent from other RIAs (27%) and professional services firms outside the industry (21%).

Equally important as where to find candidates is how to attract and retain them. In the competition for talent, a compelling employee value proposition (EVP) can help attract prospective employees and keep current staff thriving and growing. An EVP describes what the firm offers its employees in return for the skills, capabilities, and experiences they bring. Across the study, 40% of all firms have an EVP; 53% of Top Performing Firms have one. Top Performing Firms also include more elements in an EVP than the median firm in the study.

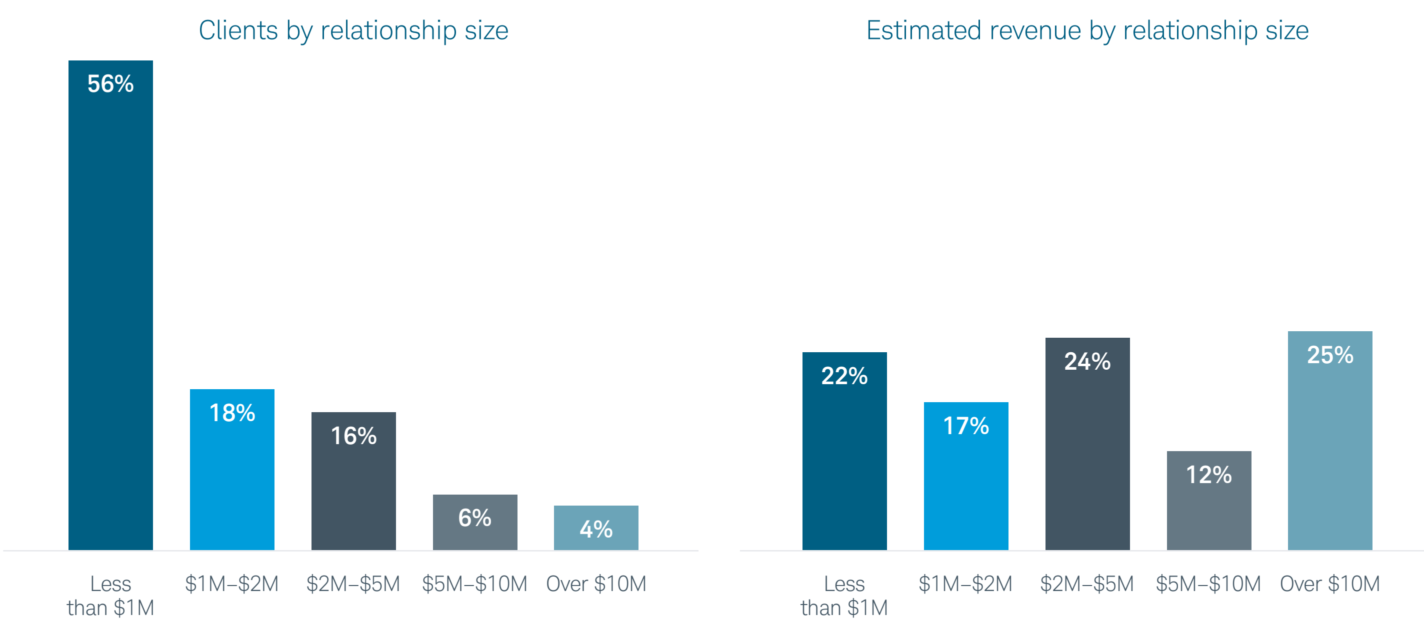
An important part of an EVP is career progression and professional development, which can help improve engagement and performance. Responding to the tight labor market over the past few years and knowing the importance of cultivating talent, firms rank developing the skills and capabilities of staff as the number-six strategic priority, four spots higher than two years ago. Nearly 80% of Top Performing Firms offer career path opportunities, and they spent $2,200 per professional staff on training, education, and professional dues in 2022 at the median.

Developing talent as well as the next generation of leaders can create a business that will endure after the partner or founder retires. As firms grow in size, they can focus on building a leadership team instead of trying to find one perfect successor. A leadership team allows for multiple career path opportunities for employees with varying skills.

Segmentation can help manage profitability and scale. With growth, balancing the client experience with the firm's operational and financial performance can become more challenging. To meet client demand, firms are offering more services, yet advisory fees have remained steady. Revenue per client dipped in 2022 and is expected to remain relatively flat in 2023. Amid inflation, firms also face rising costs. The net result is that managing firm profitability is increasingly important.

One way to do this is through client segmentation—creating experiences that fit the needs of specific client groups while also enhancing the firm's performance.

Aligning revenue and cost to serve clients is essential to building a profitable business.



Based on ending number of clients and estimated revenue in 2022.

Guiding Principle: Operational excellence creates greater capacity for clients

Institutionalizing your business through technology and operations provides operational discipline, allowing you to maximize scalability, manage risk, and build a solid infrastructure so that you can reinvest time where it matters most—with your clients, protecting the trust that you have built.

According to the Benchmarking Study, 47% of firms have a client segmentation strategy; 55% of Top Performing Firms have one. Segmentation is a strategic way of defining the client experience and how it's delivered consistently and efficiently among each segment of clients. Clients who are a good fit with the firm's ideal client persona may nevertheless be diverse in terms of assets and needs, and the firm must offer a client experience that aligns revenue with cost to serve. This is important, as firms reported that 56% of their clients had $1 million or less in AUM but accounted for only an estimated 22% of revenue in 2022.

Segmentation helps firms build a scalable business and minimize capacity limitations. As the study shows, firms with a segmentation strategy manage more clients per professional, at the median, than those without one. Using this strategy gives advisors more time to serve clients and generate new business, including engaging the next generation of clients who may have lower assets but are vital to long-term sustainability. Across the study, firms reported that 13% of clients are under 40 years old, 31% are 40–59 years of age, and 56% are 60 and older—underscoring the opportunity to attract younger clients.

Firms can also consider letting go of clients who no longer are a fit with their ideal client. In doing so, they can create capacity for growth. By spending less time and money trying to serve clients who are not a good fit, advisors are better positioned to move their business forward and focus on delighting their ideal clients.

Personalization can help deepen client relationships. Segmentation can help advisors balance scale with the demand for increased personalization—that is, they can get to know clients' needs and customize experiences and services accordingly. Because they don't have to track and deliver a different experience for each client, advisors have time to add meaningful, personalized touches that can really distinguish the offer. This helps build trust and long-term relationships, creating a differentiated client value proposition that helps earn new business, referrals, and share of wallet increases.

Firms can take an intentional and scalable approach to personalization by capturing client data consistently so that it is always available to draw on. Across the study, 84% of firms use their CRM as the central point of system and process integration. Personalization efforts can include simple touches, such as using a client's preferred communication channel, offering them their favorite beverage during meetings, and donating to their favorite charity to show appreciation for their business. Advisors can also record items in their CRM to help personalize the offer, such as family details, investment preferences, risk tolerance and appetite, and sensitivity to market fluctuations. By taking a deliberate approach to capturing client data in their CRM, RIAs can use data to yield actionable insights, anticipate client needs, and offer clients personalized advice and planning solutions, ultimately driving client engagement and deepening the client relationship.

Top Performing Firms outperform across key metrics

The Firm Performance Index helps RIAs gain insights into their performance. The index ranks all firms in the study by using 15 key metrics that take into account fundamental aspects of running a business: growth, client and staff attrition, operating margin, time spent on client service and operations, ideal client personas and what they value, and strategic and succession planning. Top Performing Firms excel in these areas, ranking in the top 20% of the index overall.

The metrics included in the Firm Performance Index align with the Guiding Principles for Advisory Firm Success, Schwab's framework that helps RIAs navigate the complexities of growing and managing their businesses. The index helps paint a holistic picture of how firms are performing, operating, and building future value, and enables advisors to identify strengths and potential opportunities for their firms.

The strong results of Top Performing Firms may be attributed to the foundational strategies these firms tend to have in place, such as a strategic plan, ideal client persona and client value proposition, integrated marketing plan, written referral plans, and an employee value proposition.

Top Performing Firms—selected metrics

Metric	Top Performing Firms	All other firms	Multiple
5-year net asset flows compound annual growth rate	14.1%	5.0%	2.8x
5-year revenue compound annual growth rate	18.2%	8.9%	2.0x
5-year client compound annual growth rate	12.8%	4.7%	2.7x
Growth in assets from new clients in 2022	7.8%	3.4%	2.3x
Firms with a written strategic plan	79%	56%	1.4x
Firms with a documented ideal client persona	79%	61%	1.3x
Firms with an employee value proposition	53%	37%	1.4x
Staff attrition rate	3.7%	6.7%	0.6x

Median results unless otherwise noted. Top Performing Firms are those ranked in the top 20th percentile of the Firm Performance Index. All other firms are those ranked below the 80th percentile of the index.

Key trends in investing

Capturing client data helps advisors see how clients' values influence their financial decisions. With this in mind, advisors can offer personalized investment strategies that can help tie meaning beyond returns to clients' investing, while also reaching their financial goals. These investment strategies can help firms differentiate themselves.

The macro environment continues to affect investment management trends. Amid uncertain market conditions in 2022, firms reported that clients frequently raised questions during investment conversations. These questions centered around three top themes: market volatility, inflation, and liquidity/cash management. These topics were consistent regardless of firm size.

Firms are dedicating additional resources to meet clients' investment needs. Across the study, firms are prioritizing asset allocation, liquidity/cash management, and active management. The top five investment vehicles that firms are increasing their use of in 2023, compared with 2022, include individual bonds, passive and active ETFs, private equity, and direct indexing. These investment vehicles also saw increased use in 2022 compared with 2021. By contrast, use of passive and active mutual funds has decreased in 2023.

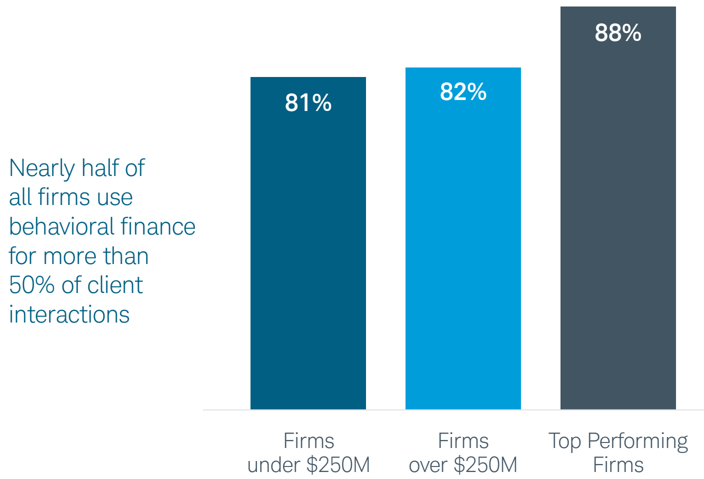
Behavioral finance can help clients reach their financial goals. Behavioral finance (BeFi) is the study of the emotional and intellectual processes that drive investors' decisions, enabling advisors to help clients optimize financial outcomes and increase emotional satisfaction. By focusing on education and awareness around behavioral biases, advisors can build stronger businesses and deliver more impactful client experiences.

The field of behavioral finance has uncovered deep-rooted biases that drive investors to make decisions that may be contrary to their best interest. Many investors may not be aware of the innate impulses affecting their decisions. Some biases, such as loss aversion and overconfidence, are driven by powerful, hard-wired emotions. Other biases are cognitive—mental mistakes caused by the way our brains process information. Both kinds can cause critical mistakes that endanger long-term goals. Understanding what clients have experienced in the past can help advisors make better decisions for them.

Over 80% of firms reported using behavioral finance concepts to coach clients and help mitigate their investing biases; an even greater percentage of Top Performing Firms do so. Nearly half of all firms use it for at least 50% of client interactions. And firms that reported using BeFi saw 3.3 times more assets from existing clients in 2022, at the median.

Firms can use behavioral finance to help deliver more impactful client experiences.

Firms that use behavioral finance



Customized investment strategies can help create more meaningful client experiences. Differentiation is increasingly important as advisors grow their firms, and personalized investment strategies are one way to make this happen. For firms seeking to differentiate themselves, strategies based around a client's beliefs and values that are tailored to integrating their wealth and life/purpose are worth considering. Following are key approaches:

Direct indexing: With direct indexing, clients own individual stocks that reflect the characteristics of an index. Direct indexing can be a professionally managed, core component of a client's portfolio that provides transparency and allows for increased personalization, such as tax-loss harvesting aligned to a client's objectives. It can also be an opportunity for linking purpose and life goals with an investing strategy. For some clients, this benefit can be as important as investment returns. Research has shown that many women prefer to invest in this way.[vii]

About a quarter of firms reported using direct indexing, with 12% planning to start in 2023. Advisors stated that tax alpha potential is the primary reason why they use this strategy, followed by customization to align index exposure with clients' beliefs.

Values-based/impact investing: Having strong relationships can help firms understand their clients' values in order to determine the role that values-based investing plays within a portfolio. Half of all firms reported using values-based investing in 2023, while 65% of firms with over $1 billion in AUM did so.

Thematic investing: Thematic investing attempts to provide exposure to overarching economic themes. This approach is empowered by the ability to explore a global universe of investment opportunities that often lie beyond the reach of traditional funds focused on a specific industry, sector, or country. It's a strategy that can be well suited as a satellite allocation within a broad, diversified portfolio. In the Benchmarking Study, 27% of all firms reported using thematic investing in 2023.

Separately Managed Accounts (SMAs): The study also found that 45% of all RIAs reported using SMAs to align a client's investments with personal interests and values, while 70% of firms with over $1 billion did so.

The need for differentiation within asset management guidance is growing. While there are fundamental standards and expectations for asset management guidance, client needs have evolved. Understanding how their other service offerings can improve their clients' satisfaction, advisors are focusing time, resources, and capital on wealth management services. This evolution can be seen in the growing number of firms identifying as Wealth Managers. In fact, about 90% of all firms that completed the 2023 Benchmarking Study self-reported as Wealth Managers, versus 9% as Money Managers.

Firms are offering the following wealth management services, with most firms including them as part of their asset management fee:

- Comprehensive financial planning (93% of all firms)
- Charitable planning (84%)
- Tax planning and strategy (81%)
- Family education (72%)
- Estate planning (65%)

Some firms are even outsourcing or partially outsourcing investment management areas. Across the study, the top investment management areas that firms are partially outsourcing are investment research for both traditional assets and alternatives, as well as market commentary for clients.

Firms using customized investment vehicles

Investment vehicle	Firms under $250M	Firms $250M–$1B	Firms over $1B
Direct indexing[1]	20%	27%	44%
Values-based/impact investing	44%	49%	65%
Thematic investing	25%	25%	32%
Separately Managed Accounts	26%	43%	70%

[1]Includes firms that are using and plan to use in 2023.

Businesses that endure

As the RIA industry evolves, firms are finding new ways to deepen client relationships. While an ideal client persona is an important strategy in helping firms attract the clients they are best equipped to serve, it is essential to bear in mind that one size does not fit all. Those matching a firm's ideal client profile are nevertheless individuals with varying needs, and firms must take the time to understand each client—and must be able to do so profitably. Segmentation and personalized strategies are all part of the advisor's toolkit in pursuing success and growth through superior client service, making advisors indispensable to their clients while building enduring businesses.

Discover more findings from the 2023 RIA Benchmarking Study to gain insights into how advisors of all sizes have continued to thrive and grow their firms.

Visit advisorservices.schwab.com/benchmarkingresults

Chart your course

Clearly see how your firm is performing in the marketplace with the RIA Benchmarking Study, open from January to March each year.

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[i] Organic growth is the change in a firm's assets from new, existing, and lost clients before investment performance is taken into account, and it excludes the growth from acquisitions, divestitures, and advisors joining or leaving.

[ii] "All firms" refers to firms with $25 million or more in AUM. "Smaller firms" refers to firms with less than $250 million in AUM, and "larger firms" refers to those with $250 million or more in AUM. When not distinguished, results are for firms with $250 million or more in AUM. Results are medians unless otherwise noted.

[iii] Top Performing Firms are those that rank in the top 20% of the Firm Performance Index. The index evaluates all firms in the study according to 15 metrics to arrive at a holistic assessment of each firm's performance across key business areas.

[iv] DeVoe & Company, Annual RIA M&A Outlook, December 2022.

[v] Inorganic activity represents mergers or acquisitions, divestitures, advisors with transferrable assets joining, or advisors with assets departing.

[vi] Cerulli Associates, U.S. RIA Marketplace 2022.

[vii] Charles Schwab Asset Management, Women+Investing: Planning her portfolio, 2021.

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About the 2023 RIA Benchmarking Study from Charles Schwab

Schwab designed the RIA Benchmarking Study to capture insights in the RIA industry based on survey responses from individual firms. The 2023 study provides information on topics such as asset and revenue growth, sources of new clients, products and pricing, staffing, compensation, marketing, technology, and financial performance. Since the inception of the study in 2006, more than 4,500 firms have participated, with many repeat participants. Fielded from January to March 2023, the study contains self-reported data from 1,300 firms that custody their assets with Schwab or TD Ameritrade and represents over $1.7 trillion in assets under management, making this the leading study in the RIA industry. Schwab did not independently verify or validate the self-reported information. Participant firms represent various sizes and business models. They are categorized into peer groups by AUM size. The study is part of Schwab Business Consulting and Education, a practice management offering for RIAs. Grounded in the best practices of leading independent advisory firms, Business Consulting and Education provides insight, guidance, tools, and resources to help RIAs strategically manage and grow their firm.

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