

RIA Sentiments on Business Conditions, Succession Planning and Valuation

May, 2010



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Key Takeaways

(Survey among RIAs: April 7 through 22, 2010)

Dynamics of the RIA Business Model

1. Investor defection from wirehouses and broker-dealers continues to fuel growth of the RIA advisory model.

- 68% of RIAs reported having more clients in April 2010 over the past six months. These RIAs attributed 61% of new assets originating with wirehouses and broker-dealers.
- Among RIAs experiencing growth, 21% cited the RIA's fiduciary duty to act in the best interest of clients as a factor contributing to growth – up from 14% in December 2009.
- Larger RIAs (\$100M+ AUM) outpace smaller ones on client acquisition. 81% of RIAs with \$100M+ AUM acquired new clients in the past six months, compared to 58% of RIAs in the \$5M-\$25M AUM range.

2. 1 in 4 RIAs increased business spending to support growth initiatives.

- 24% of RIAs stated they increased business spending an average of 22% during the past three months.
 - Increased business spending is led by larger firms (\$100M+ AUM) where about one-third of them increased their spend by approximately 13%, compared to three months ago. In contrast, 23% of smaller firms (under \$25M AUM) increased their spend by 31% during the past three months.
- Among the RIAs spending more, most allocated the increased spend to technology (71%) and personnel (salaries 39% and staffing 29%) .

About the Survey

- Eligibility criteria for participation in this survey: RIAs reporting at least \$5M in AUM and registered for one year or longer.
- Random sample of 500 RIAs participated in a telephone survey between April 7 and April 22, 2010. Respondents include RIAs who custody with TD AMERITRADE Institutional or other firms.
- The margin of error in this survey is $\pm 4.4\%$. This means that in 19 cases out of 20, survey results based on 500 respondents will differ by no more than 4.4 percentage points in either direction from what would have been obtained by seeking the opinions of all eligible RIAs.
- These results are based on a survey conducted by Maritz, Inc. on behalf of TD AMERITRADE Institutional. Maritz, Inc. and TD AMERITRADE Institutional are separate, unaffiliated companies and are not responsible for each other's products and services.

Key Takeaways

(Survey among RIAs: April 7 through 22, 2010)

Succession and Business Valuation

3. Having a succession plan is important to RIAs and their clients. Few RIAs, however, actually have a formal plan.

- 53% of RIAs believe their clients would consider a formal succession plan to be an important business practice. Only 39% of RIAs have a formal succession plan in place.
- Larger RIAs (\$100M+ AUM) are more in sync on the importance and presence of a succession plan. 58% of these RIAs consider succession planning to be an important business practice and 54% currently have a formal succession plan.

4. Succession plans rely on key employees within the advisory firms.

- Among advisors with a formal succession plan, 49% expect to appoint an internal successor compared to 19% who are inclined to sell their practice or merge with another firm.

5. Building a book-of-business of wealthier clients is a common path for advisors to increase valuations of their firms.

- 61% of advisors plan to pursue higher net worth prospects during the next 12 months.
- RIAs know the value of their business without undertaking a formal evaluation. Only 12% of advisors completed a formal valuation of their firms in the last 12 months.

Looking Ahead: RIAs on the Economy and Market

6. RIAs anticipate further economic recovery in 2010.

- Optimists outweigh pessimists by more than a 2 to 1 margin (53% have an optimistic view of the economy for the next three months; 22% are pessimistic).

7. A rising DOW in March and April prompted RIAs to shift more assets into equities. Asset allocation during April 2010, compared to December 2009:

- 50% Equities, up from 48%
- 26% Fixed Income, down from 28%
- 12% International Investments, up from 11%
- 9% Cash, down from 10%
- 3% Alternative assets (private equity, real estate), unchanged

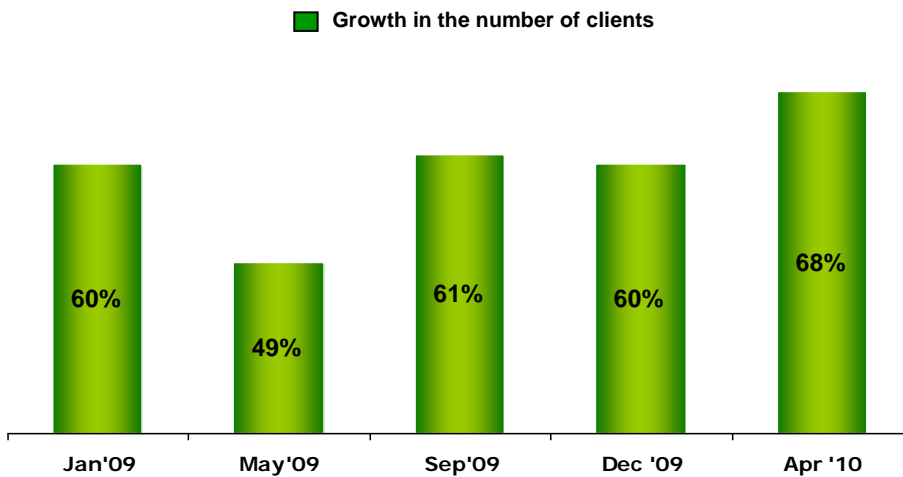
Dynamics of the RIA Business Model

Investors defecting from full-commission brokers continue to fuel RIA growth

68% of RIAs acquired more clients during the past six months; New asset growth originates with full-commission brokers for 61% of these RIAs

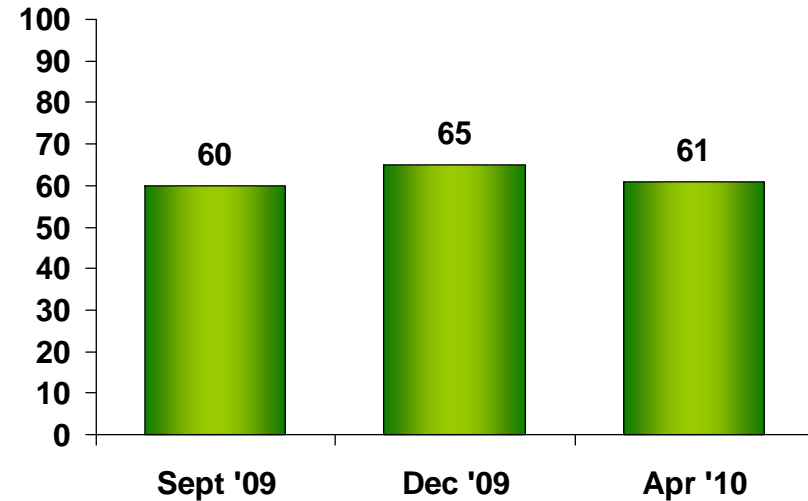
- Among RIAs (68%) experiencing growth in April 2010, fewer (23%) cited investors' dissatisfaction with their full-service brokerage firms as the main reason for attracting new clients during the last six months. Investor dissatisfaction with full-service firms was a more prominent motive in September '09 (33%).

Among RIAs reporting an influx of new clients in the past 6 months⁽¹⁾...
[Change in number of clients]



...Majority of RIAs continue to cite wirehouses or broker-dealers as the top source for growth

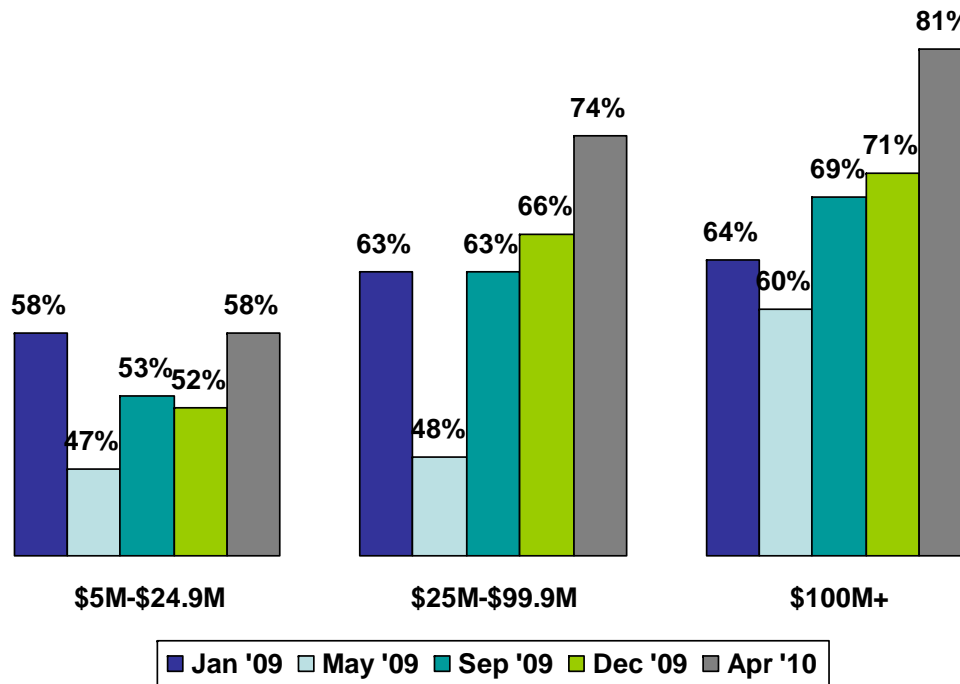
Assets originating with wirehouses or broker-dealers⁽²⁾



1) Q Overall, in the past 6 months have you seen growth or loss or no change in the number of clients?
 2) Q Where do you see the majority of your assets coming from?
 3) Q What is the main reason these clients chose the RIA model?

Larger RIAs outpace smaller ones on client acquisition

% RIAs growing their client base during past 6 months



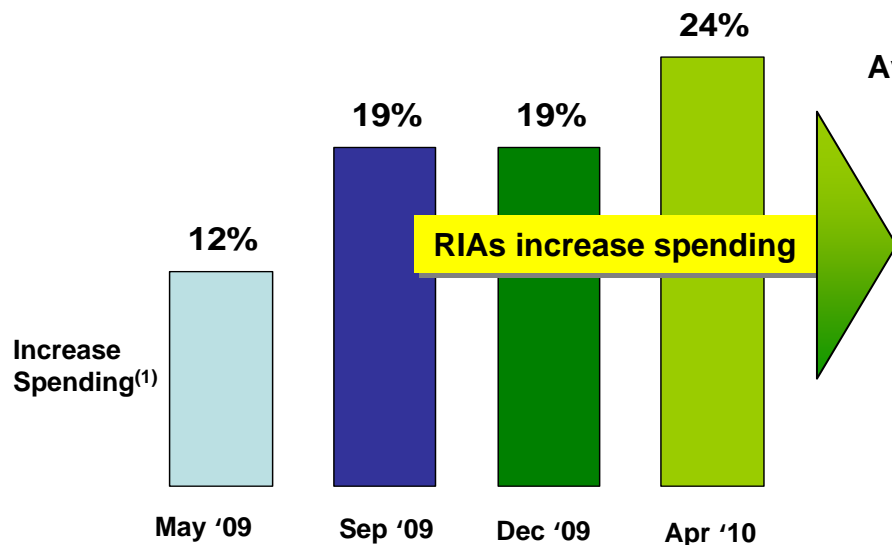
Q Overall, in the past 6 months have you seen growth or loss or no change in the number of clients?
Apr '10 Sample sizes: \$5M-\$24.9M [211] \$25M-\$99.9M [121] \$100M+ [138]

More RIAs are investing in technology and personnel to support growth

Average spending increases 22% in the past three months

- Increased spend allocated to most categories except travel.

Change in Business Spending



Average Increase in Spend⁽²⁾

Apr '10	+22%
Dec '09	+24%
Sep '09	+25%
May '09	+17%

Increased Spending in⁽³⁾...

	Sep '09	Dec '09	Apr '10
Marketing	53%	64%	62%
Technology	62%	61%	71%
Travel	15%	29%	24%
Client appreciation activities or entertainment	35%	28%	32%
Professional development	25%	27%	33%
Staffing	25%	22%	29%
Salaries & bonuses	20%	21%	39%
Office space	15%	19%	24%
Employee benefits	14%	17%	21%

	May	Sept	Dec	Apr
Same	58%	53%	56%	59%
Decrease	30%	28%	25%	17%

1) Q How would you best describe your firm's business spending in the past three months? Would you say you have...

2) Q On a percentage basis, overall, how much did you increase spending?

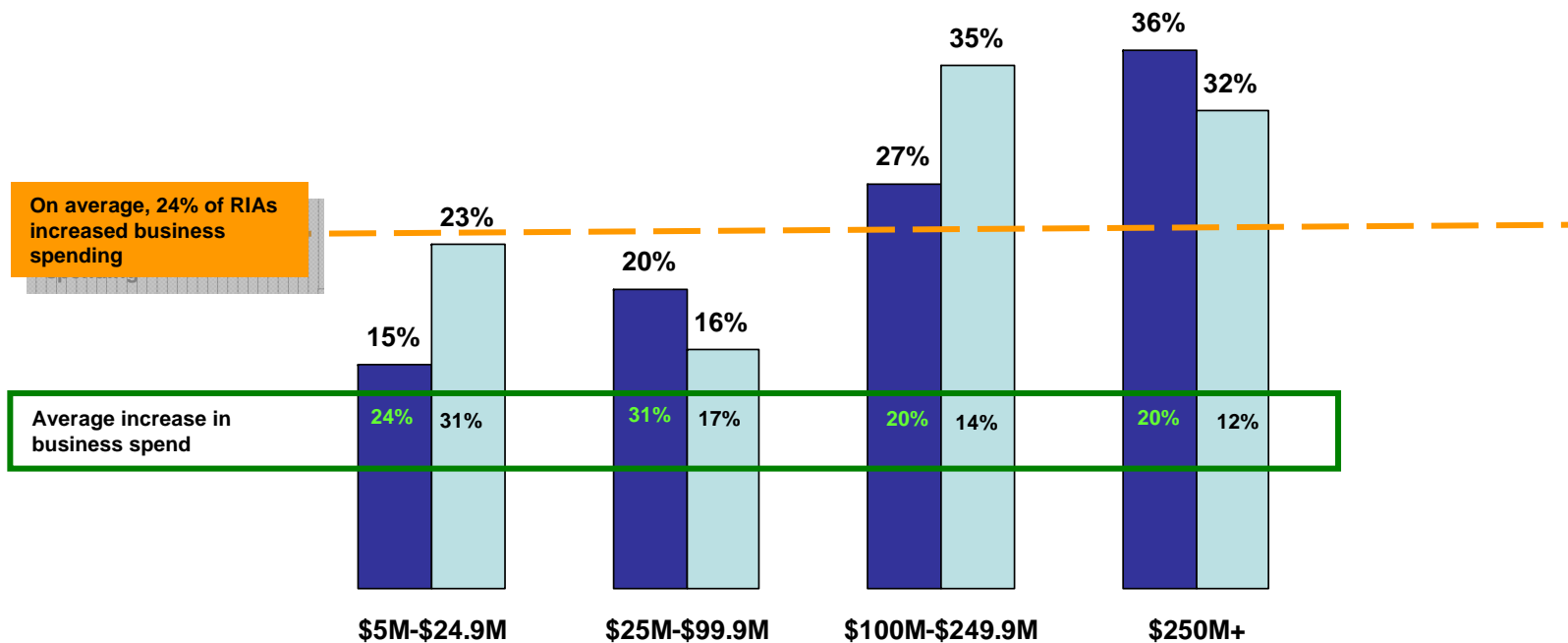
3) Q In what areas have you increased spending?

Increased business spending is lead by larger firms

Across firms, smaller ones allocate slightly more of their budgets for growth initiatives

% of RIAs having increased business spending in the past 3 months by AUM

■ Dec '09 ■ Apr '10



Q How would you best describe your firm's business spending in the past three months? Would you say you have...

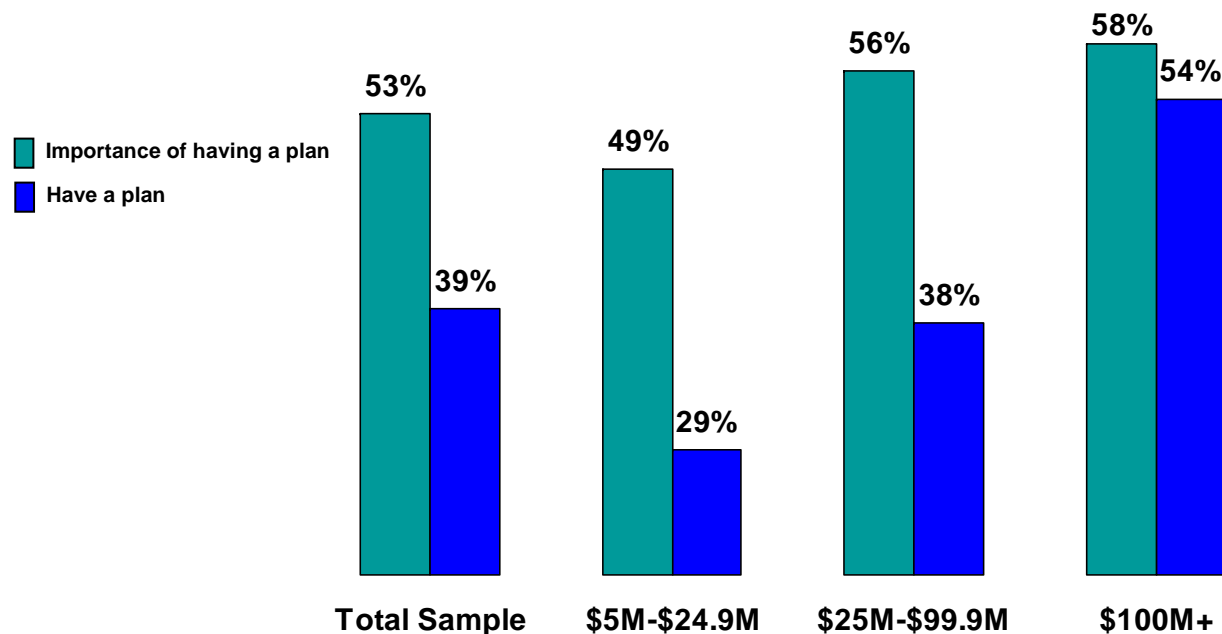
Succession Planning and Business Valuation

Most RIAs believe clients consider succession planning important; Fewer RIAs, however, have a succession plan

Succession Planning is more relevant to the largest RIAs (\$100M+ AUM)

- 53% of RIAs consider succession planning important to their clients. This sentiment is consistent across AUM bands.
- RIAs with \$100M+ AUM have parity between the importance of having a succession plan (58%) and actually having a plan in place (54%).

RIA Views on Succession Planning



Q On a scale of 1 to 10 where 10 means "extremely important" and 1 is "not at all important," how important is succession planning to your clients?

Q Do you have a succession plan?

Apr '10 Sample sizes: Total Sample [500] \$5M-\$24.9M [211] \$25M-\$99.9M [121] \$100M+ [138]

RIAs' framework for *Succession Planning*

Have a Plan

Among the 39% of RIAs with a succession plan...

- 49% expect to appoint an internal successor
- 18% are inclined to sell their practice or merge with another firm
- 29% have not yet decided

RIAs have multiple reasons for having developed a succession plan.

- 57% want to support the viability of their firm
- 52% satisfy client expectations
- 36% provide continuity for employees
- 36% facilitate transition into retirement
- 32% enhance valuation of their firm
- 21% want to establish their legacy

54% are "very confident" that their succession plan is comprehensive.

No Plan

57% of RIAs do not have a succession plan. 4% are in the midst of developing one.

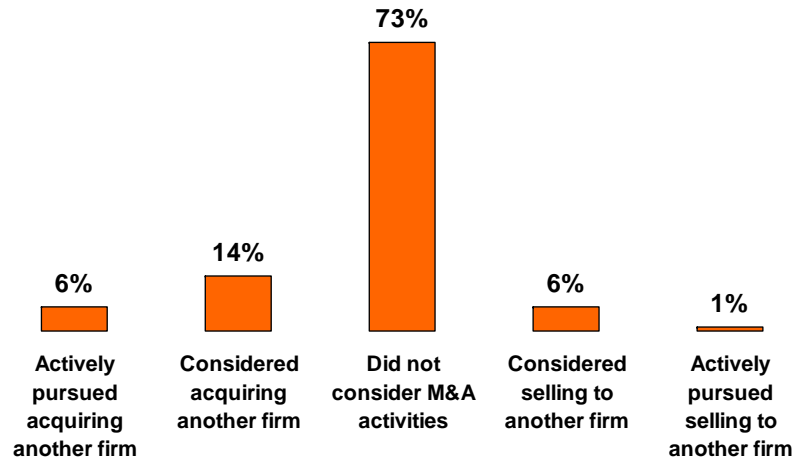
42% of these RIAs have not identified a successor. Other reasons for not having a succession plan:

- 32% do not consider it important at this time in their career
- 20% lack the time to develop one
- 8% do not know how to start
- 8% do not believe their business has much value
- 5% do not have the resources to develop a plan

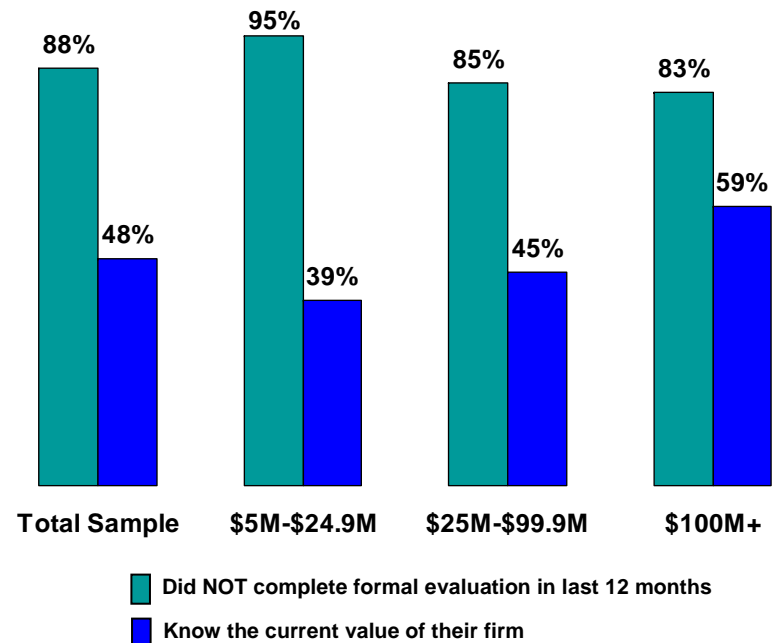
RIAs know their worth without undertaking a formal valuation

Overall, 12% of RIAs completed a formal valuation of their firms in the last 12 months⁽¹⁾

73% of RIAs did not contemplate M&A activities⁽²⁾...



...And consequently 88% of RIAs did not feel the need to have formal valuations⁽³⁾



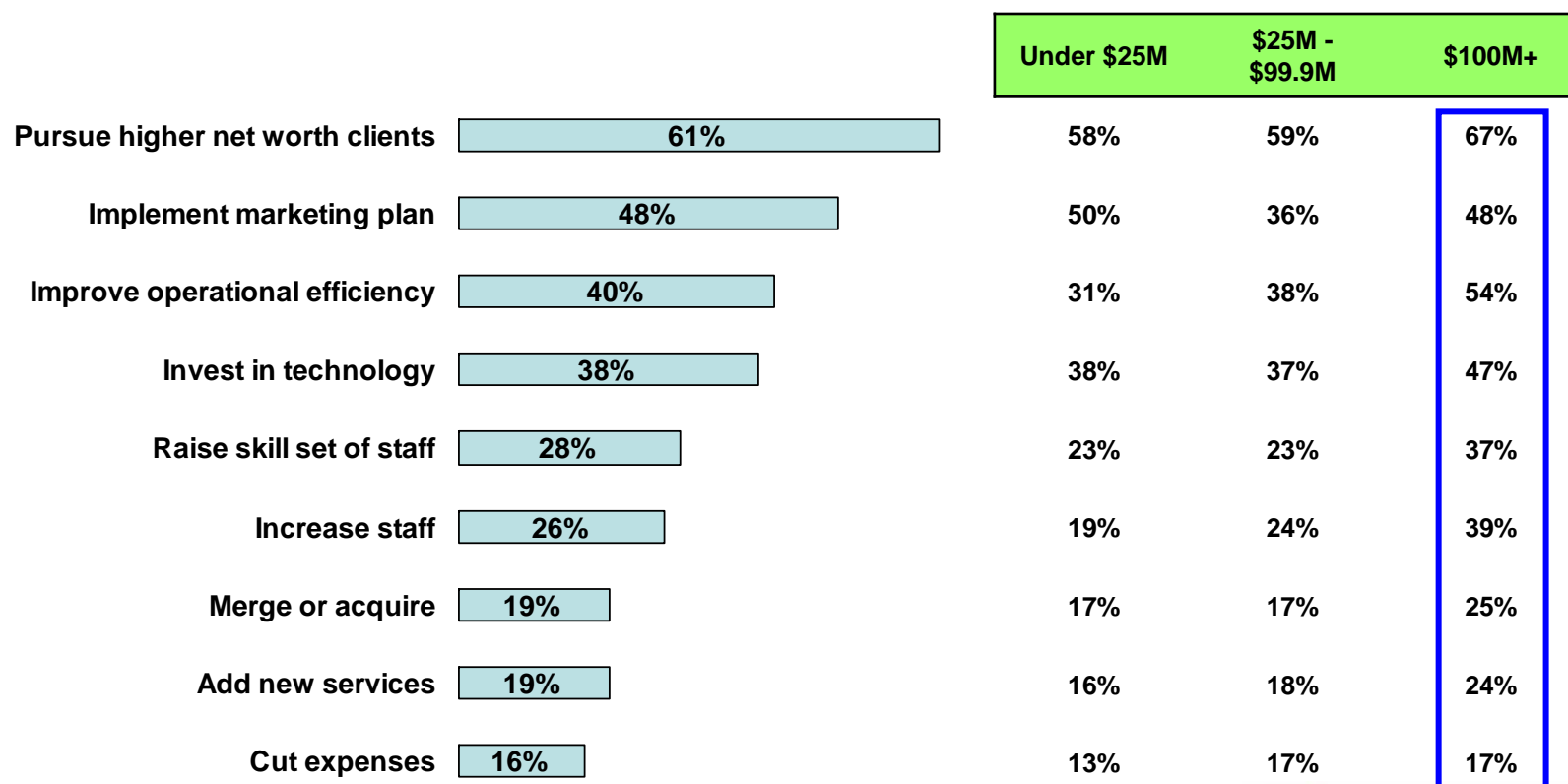
1) Q Did you have a formal valuation completed in the last 12 months?
 2) Q What side of the merger & acquisition activities would best describe your firm during the past 18 months?
 3) Q Do you know the current valuation of your firm?
 Apr '10 Sample sizes: Total Sample [500] \$5M-\$24.9M [211] \$25M-\$99.9M [121] \$100M+ [138]

Building a wealthier book-of-business is the common path to higher valuation

RIAs also expect to harness technology to gain efficiencies

- RIAs \$100M+ AUM are more focused than their smaller peers on tactics designed to increase business valuation.

Actions RIA plan to implement over the next 12 months to increase the value of their firms



Q Over the next 12 months, what actions do you plan to take to increase the value of your firm?
 Apr '10 Sample sizes: Total Sample [500] \$5M-\$24.9M [211] \$25M-\$99.9M [121] \$100M+ [138]

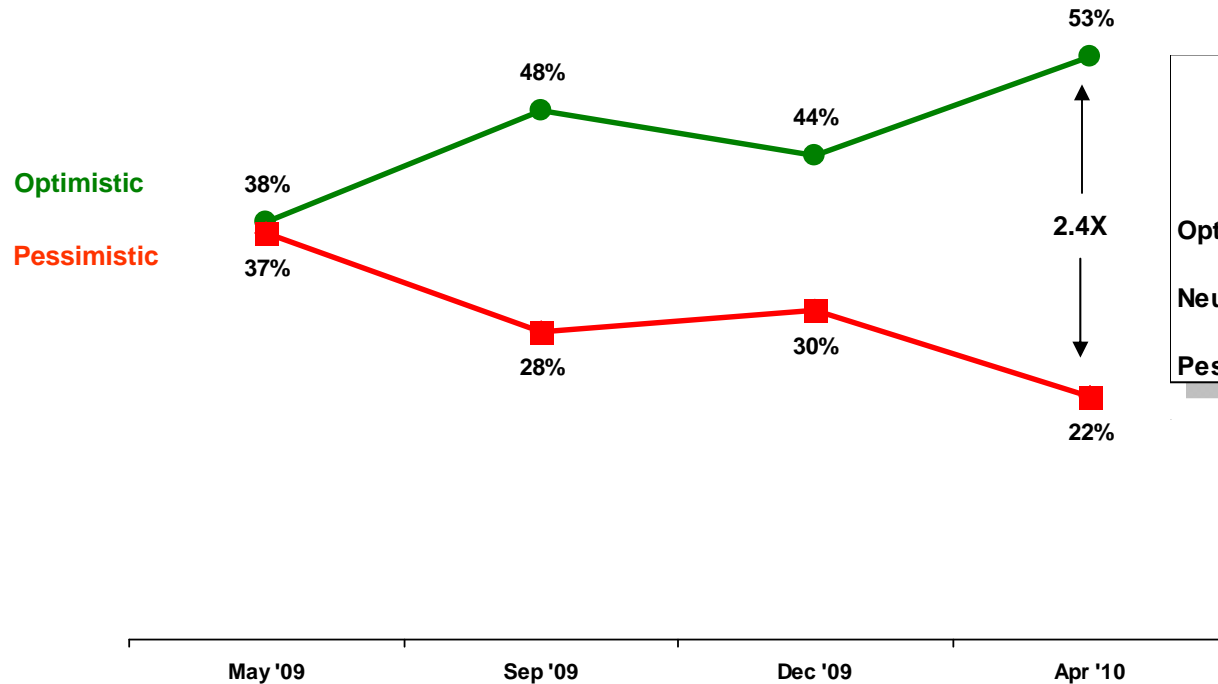
**Looking Ahead:
RIAs on the Economy and Market**

RIAs anticipate further economic recovery in 2010

Optimists outweigh Pessimists by more than a 2 to 1 margin

- The larger RIAs (\$250M+ AUM) are more optimistic than their peers that the US economy will improve in the near term.

Outlook for US economy over the next 3 months



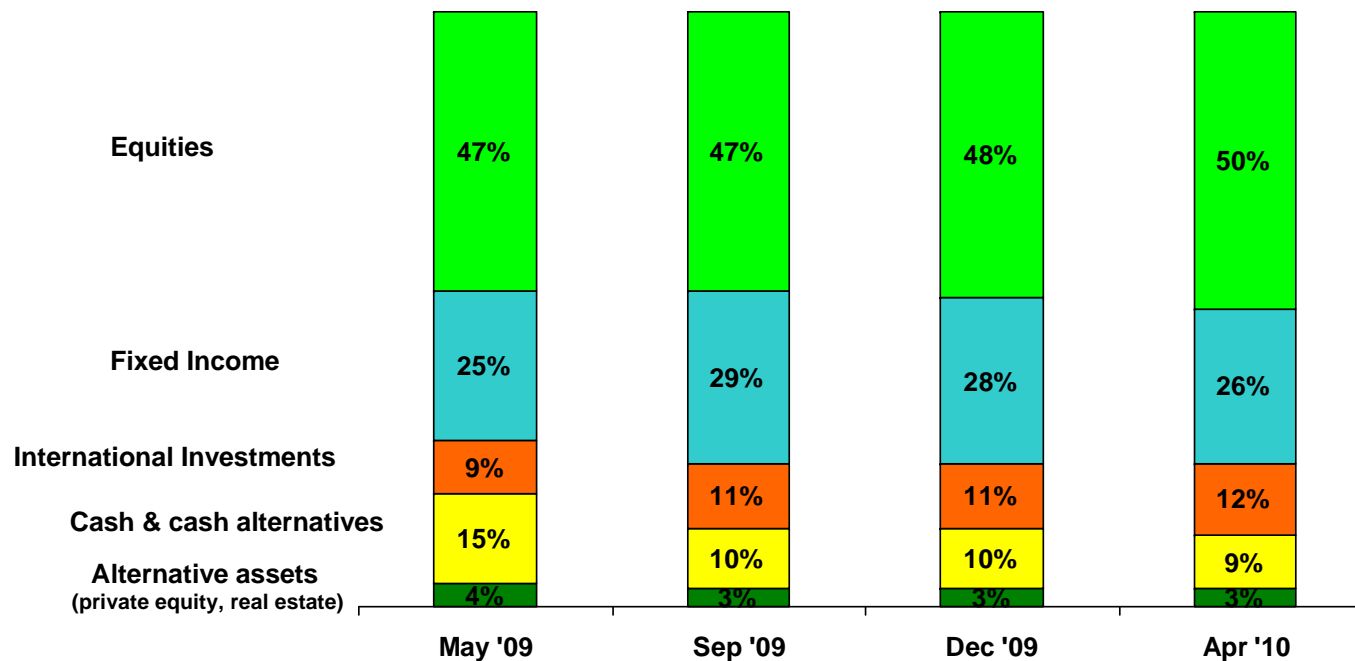
	AUM (\$ million)			
	\$5 - \$24.9	\$25 - \$99.9	\$100 - \$249.9	\$250+
Optimistic	46%	54%	52%	71%
Neutral	28%	26%	27%	12%
Pessimistic	26%	20%	21%	17%

Q Looking ahead to the next three months, what is your feeling on the outlook on the US economy?

April 2010: RIAs shift more assets into equities

A rising DOW encourages higher allocation to stocks

Asset Allocation



Q What percent of the assets that you manage for clients today is in equities, fixed income, international investments, cash or alternative assets (private equity or real estate)?

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