INVESTOR OF THE FUTURE

The Quest for Tomorrow's Affluent Clients Starts Today

Pershing®

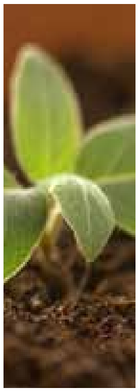
BNY MELLON

CONTENTS

What's on the cover?

The first shoots often give little hint of the final shape or size of new growth.

Pershing's *Investor of the Future* digs beneath the surface to investigate the demographic trends that will reshape the market landscape and create new growth opportunities for advisors.



MORE ABOUT PERSHING'S "THE FUTURE" SERIES

Advisors gave a warm reception to the February 2013 release of the Pershing-sponsored study *Advisor of the Future II: Building a Business to Last*. This independent study helped advisors gain a clearer understanding of the future and offered ideas for how to best realize firm objectives. But what about the clients who will form the core of these emerging business opportunities? The second part of Pershing's "The Future" trilogy shifts the focus to advisors' clients.

IN BRIEF—What You Need to Know in 30 Seconds

✓ **Advisors accurately perceive that their affluent client bases are not as ethnically diverse or as young as the broader U.S. affluent market.**

Affluent client bases skew predominantly Caucasian in race and are typically older.

✓ **Women advisors have more diversity in their client bases.**

Women appear to have more success with segments commonly thought of as 'niche' markets—and seem to be setting the example for quality client engagement, too.

✓ **Business owners make up an outsized share of advisors' current client bases and remain a highly attractive opportunity.**

The specialized capabilities needed to serve business owners are offset by the upside potential.

✓ **Advisors see women and business owners as the most important affluent segments for growing their businesses**

Minority group members, LGBT (lesbian, gay, bisexual and transgender) clients, families with special needs and younger investors are perceived as less essential segments.

✓ **The massive upcoming wealth transfer will put younger investors in the spotlight.**

As wealth is passed to the next generation, advisors will gain opportunities to serve younger investors, especially the children of current clients.

✓ **Inattention to recruiting among minority segments may signal opportunity for the visionaries.**

Advisors have an opportunity to attract culturally sensitive advisors and train existing advisors in serving minority groups.

✓ **Diversification for its own sake, though, is not the answer.**

Advisors may not want to spread their business across many different client segments, but rather identify and focus on a few key groups. Specialization will help advisors deliver greater value and stand out from competitors.

INVESTOR OF THE FUTURE

The Quest for Tomorrow's Affluent Clients Starts Today

Take a look around: the faces—and needs—of the affluent population are changing. Greater diversity, emerging sources of wealth and other new dynamics require advisors to keep up. How can an advisor avoid becoming obsolete? To attract and retain valuable clients in the coming decades advisors need to recognize the changing dynamics of affluence and adapt accordingly. This report, based on a study commissioned by Pershing, offers a glimpse at what today's affluent client base looks like, gauges advisors' perceptions of the broader market and looks forward in an effort to predict which clients may be most influential in shaping advisors' businesses in the future. In addition to highlighting the benefits of clear foresight—and the pitfalls of shortsightedness—we offer best practices that firms and advisors can adopt to better align with client dynamics and assist their with continued success and growth.

SAMPLING METHODOLOGY

The survey was conducted online, among U.S. advisors at least 25 years of age, sampled from the Harris Interactive Panel of Financial Advisors. 317 interviews were conducted:

- 101 among RIAs (independent RIAs not working at a wirehouse or affiliated with a regional brokerage)
- 109 among wirehouse advisors (those working at wirehouses or regional brokerage firms)
- 107 among other advisors (those working at insurance agencies, independent broker-dealers or banks)

PERCEPTION VS. REALITY

What Do Today's Affluent Clients Look Like?

Before we shift into the future to understand tomorrow's client opportunities, it is important to understand what today's affluent clients look like. In trying to capture a clear picture of these clients, we learned that advisor perceptions are not always aligned with reality.

Surveyed advisors overall believe that their affluent clients skew significantly more Caucasian, are somewhat older and are much more likely to be married compared to the broader market. For the most part, our research corroborated that view: Advisors' affluent client base does skew somewhat more Caucasian (84% of clients vs. 82% of the market) and is markedly older (60% of clients age 55 and older vs. 35% in the actual affluent market). Yet, surprisingly, marriage is more prevalent among clients in the broader affluent market than among advisors' affluent clients (82% in the market vs. 65% of clients).[1]

One additional major gap between advisor perception and reality. Business owners are dramatically overrepresented in advisors' client bases—a stunning 37% vs. 4% in the actual market. Yet, advisors believe that there are many other business owners in the affluent market (average estimate of 59%)—signaling their pursuit of an "untapped opportunity."

1 Unless indicated, all data in the study is based on survey results conducted online from February 14 to March 1, 2013, among U.S. advisors at least 25 years of age, sampled from the Harris Interactive Panel of Financial Advisors.

On the other hand, advisors appear to be accurately attuned to the fact that their client bases feature less ethnic diversity than the broader market. In particular, affluent clients of Asian and Hispanic/ Latino heritage are underrepresented among the client bases of advisors.

Advisors also are alert to the potential of clients who fall outside the larger affluent investor segments. They view the lesbian, gay, bisexual, and transgender (LGBT) population as an attractive opportunity, for example, as well as families who have complex needs due to special needs dependents.

Gaps between perception and reality may indicate that advisors either find certain segments particularly attractive as business opportunities, or that they simply imagine the needs in these segments to be more acute.

Taking a Closer Look

Advisors' estimations of their own client bases, their perceived market estimations and the actual affluent market profile do not always align, as the figures in the following section show. By looking at his or her current book of business and comparing it to the actual market segmentation, an advisor can more accurately assess and seize opportunities for additional client attraction.

FACT VS. REALITY: ADVISORS' AFFLUENT CLIENT BASES COMPARED TO PERCEIVED AND ACTUAL U.S. AFFLUENT MARKET

Actual affluent market figures below are from U.S. Census data on households earning $250,000 or more in annual income, unless otherwise noted.

Demographic Segment	Advisors Reporting Their Affluent Client Base in these Categories (>$250K Household Income)	Advisors Estimating The Affluent Market in the U.S. (>$250K Household Income)	Actual Affluent Market in the U.S.	Key Takeaway
Women	40%	39%	29%[i]	Advisors' relatively higher estimate of affluent women may show that they recognize women's need for advice, and their influence on investment decisions.
Married/ Partnered	65%	56%	82%[ii]	Advisors think their affluent clients are less likely to be married or partnered, but the overall affluent market is much more likely to be married or partnered.
Single (Never Married/ Partnered, Divorced, or Widowed)	35%	44%	18%[iii]	
White/ Caucasian	84%	63%	82%	Advisors believe that their client base is much less ethnically diverse than the market, but it is only slightly more Caucasian.
African-American/ Black	4%	10%	4%	Advisors appear to be optimistic about the potential growth for this client segment.
Hispanic/ Latino	3%	7%	5%	While the affluent market's Hispanic/Latino and Asian/Pacific Islander groups are smaller than advisors believe, these groups remain underrepresented in today's client bases.
Asian/ Pacific Islander	5%	13%	8%	

Investors under age 35	5%	10%	10%[iv]	While still a relatively small segment of the affluent population, younger investors (ages 25–34) are twice as prevalent in the market than advisors' client bases (even though they estimate this segment's size accurately). Advisors may be neglecting investors in the middle of the age spectrum as well, in favor of their older counterparts. Fully 60% of affluent clients are 55 and older, while in the market only 35% fall into this segment. Given the role younger investors will play in coming years, advisors may be wise to pay more attention to them now.
Investors ages 35–44	11%	13%	22%[v]	
Investors ages 45–54	24%	21%	32%[vi]	
Investors ages 55–64	31%	28%	25%[vii]	
Investors over age 65	29%	28%	10%[vii]	
Business Owners	38%	59%	4%[ix]	Business owners loom disproportionately large, both in advisors' client bases and in their visions of the market.
LGBT	6%	17%	2%[x]	The relatively large overestimation of the LGBT market may imply, similar to business owners, that LGBT clients are a very attractive segment.
Special Needs Dependents	11%	16%	Not available	Advisors seem to believe there are more families with special needs dependents than their client bases reflect.

i Among individuals earning $100,000+ in annual income. "Table PINC-11 Income Distribution to $250,000 or More for Males and Females: 2010." Current Population Survey, 2011 Annual Social and Economic Supplement. 2011. US Census Bureau. Web. 2 May 2013. <http://www.census.gov/hhes/www/cpstables/032011/perinc/pinc11_000.htm>

ii Among households earning $200,000+ in annual income. "Table HINC-01 Selected Characteristics of Households, by Total Money Income in 2011." Current Population Survey, 2011 Annual Social and Economic Supplement. 2011. US Census Bureau. Web. 2 May 2013. <http://www.census.gov/hhes/www/cpstables/032011/hhinc/new01_000.htm>

iii Ibid.

iv "Table HINC-02 Age of Householder-Households, by Total Money Income in 2011." Current Population Survey, 2011 Annual Social and Economic Supplement. 2011. US Census Bureau. Web. 2 May 2013. <http://www.census.gov/hhes/www/cpstables/032011/hhinc/new02_000.htm>

v Ibid.

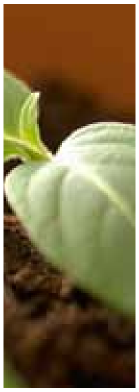
vi "Table HINC-02 Age of Householder-Households, by Total Money Income in 2011." Current Population Survey, 2011 Annual Social and Economic Supplement. 2011. US Census Bureau. Web. 2 May 2013. <http://www.census.gov/hhes/www/cpstables/032011/hhinc/new02_000.htm>

vii Ibid.

viii Ibid.

ix Thomas Barthold, "Revenue Estimates" Memorandum. US Congress Joint Committee on Taxation. 2012. Web. 2 May 2013. <https://docs.google.com/file/d/0B9SDopu5eAeLUnhmTDVLMUhqNjQ/edit>

x Among US adults with $100,000+ in annual income. Ipsos, The Mendelsohn Affluent Survey. 2011. Qtd. in Ad Age. Web. 2 May 2013. <http://adage.com/article/adagestat/unique-profile-lgbt-affluents/229777/>



TAKING CARE OF BUSINESS

Business owners are significantly represented in advisors' client bases, which indicates that this segment is extremely important to many firms' success. Even with an outsized number of business owner clients, advisors still have their eyes trained on attracting more. Advisors estimate that nearly three-fifths of the affluent market is comprised of business owners. Even in the millionaire market, however, business owners make up only 9% of the population.[2]

The allure of business owners—with their unique and often complex financial needs and their potential as a gateway to their employees—continues to drive this disproportionate interest among advisors. But does this interest translate into winning these attractive clients? In practice, advisors who have the most success serving business owners are those who create a robust offering tailored to this client base.

As a first step, realize that all business owners are not alike and thus have widely divergent needs. An entrepreneur just starting out is likely to want advice on financing, as well as establishing benefits or retirement programs for a rising number of employees. By contrast, owners of more mature businesses may be seeking help with valuation or even succession planning.

Typically, firms that are successful at attracting and retaining business owners as clients are more likely to offer—either directly or through partnerships—support for cash flow management, debt management, risk protection (such as life and disability insurance), employee benefits, executive benefits planning, trust services and strategic planning.

It is critical to understand that many business owners may not have significant investable assets outside the investments they have made in their businesses. Services outside of investment management are not merely tangential offerings—they often form the core of your relationship with these clients. In addition, the fact that many entrepreneurs maintain low levels of investable assets means advisors should carefully consider their pricing strategies—an asset-based compensation model on its own may limit revenue and profitability. Creating a pricing structure with retainer or variable fees for advice on issues outside of investment management may help drive better profitability.

For more information on how to successfully work with business owners and entrepreneurs, please read Pershing's advisor guidebook *How to Build a Business with Business Owners* (Available on pershing.com/smallbusiness).

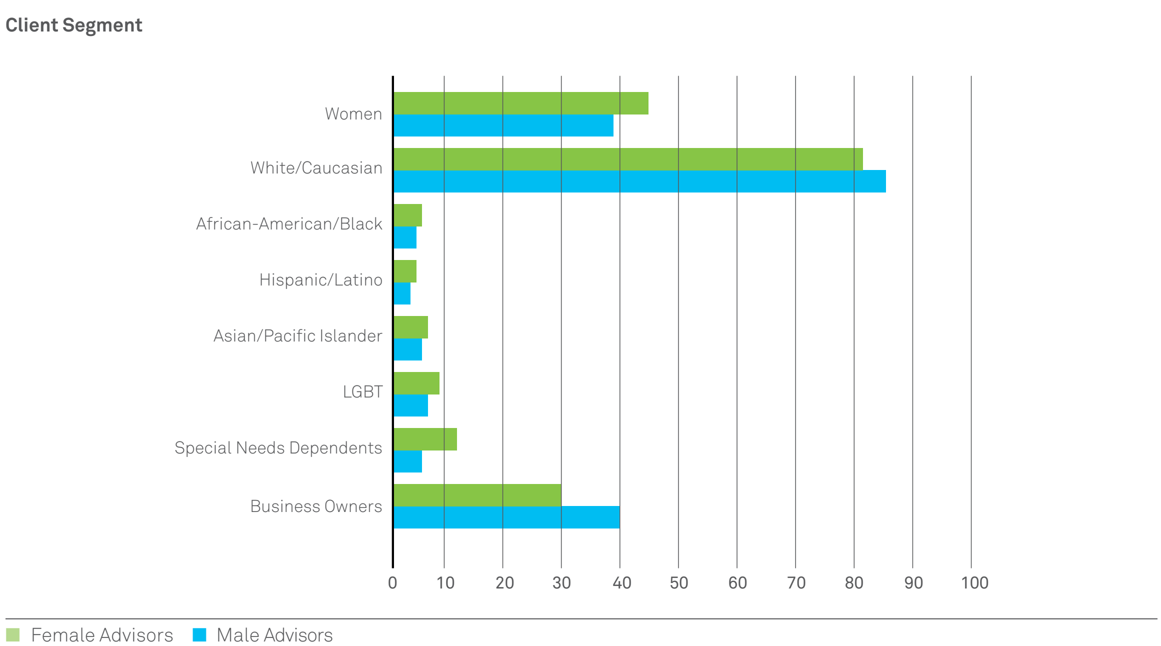
2 Spectrem Group. (2011). *Millionaire Investor 2010*.

Client segments such as minority groups, younger investors and women comprise a growing percentage of the affluent market, and their economic power will continue to expand. Advisors who neglect to engage these segments as part of today's client mix may risk a plateauing or declining business in the future. In the next section, we will examine the segments that advisors believe will be key to future business success.

WOMEN ADVISORS: SETTING THE PACE FOR CLIENT DIVERSITY?

There is a marked difference in client diversity among men and women advisors. Women advisors appear to have more diversity in their client bases, serving more women, ethnic minorities, LGBT clients and families with special needs dependents. Why? It might be that these clients are more comfortable working with women, a reflection of an advisory style that is different from men's. It might also be that women advisors are actively reaching out to these diverse segments, as the next section of this report implies. By contrast, women advisors are less likely than their male counterparts to have another attractive type of client: business owners.

AFFLUENT CLIENT SEGMENTS, BY GENDER OF ADVISOR



FUTURE SHIFT

Which Segment Will Emerge as the Next Great Opportunity?

There is some degree of consensus among advisors that women and business owners will be the two main pistons that drive business forward in the coming years. Prioritization of these two groups outweighs the emphasis placed on the opportunities within ethnic segments, the LGBT group, families with special needs and young investors.

More than eight in 10 advisors view women and business owners as extremely or very important to growing or maintaining their business; these two groups' placement at top-of-mind is more pronounced among specific segments of advisors. We find that older advisors tend to view women as more critical to their business success (96% of advisors 65+ vs. 81% of advisors <40) even though their clients' gender mix is virtually identical to that of all other advisors (39% female clients among advisors 65+ vs. 40% overall).

Meanwhile, the advisors who are most attuned to the opportunities among business owners are those trying to keep their businesses on track. About 92% of advisors who are struggling to maintain or grow their business say that business owners are an important segment for them—13 percentage points more than among those who say they are "doing better than before."

BUSINESS OWNERS: OPPORTUNITY…CUBED

Advisors perceive business owners as a significant opportunity for growth in the affluent market. To realize this opportunity, advisors may want to develop strategies that encompass the full breadth of their potential to serve these clients. In addition to helping with business owners' personal finances, advisors may be well served to consider:

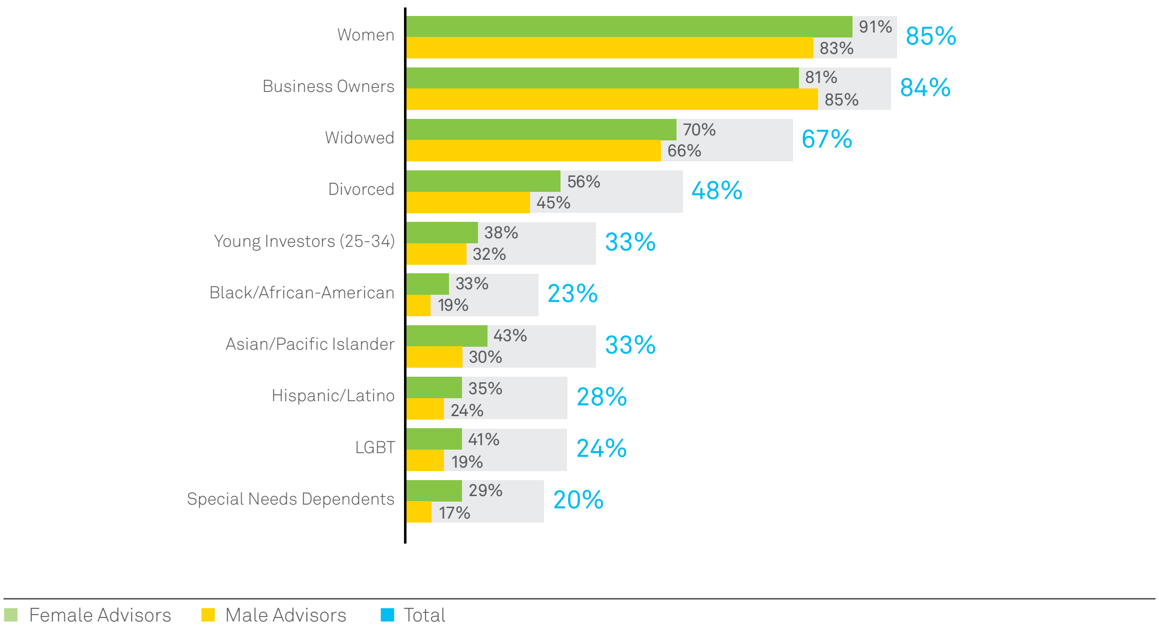
1. **The business itself** – Advisors may assist with managing business finances, such as lending, employee benefits, risk protection and business planning.
2. **Employees** – A positive relationship is built with the business owner may lead to further openings to meet or market to the company's employees.
3. **The owner's colleagues** – By specializing in business services and gaining a reputation for serving these clients well, advisors may increase referral opportunities to other business owner clients.

For more information on how to work successfully with business owners and entrepreneurs, please see Pershing's advisor guidebook *How to Build a Business with Business Owners* (Available on pershing.com/smallbusiness).

In crisis, it is said, there is also opportunity. Our research shows that advisors embrace this philosophy when it comes to serving people who are experiencing difficult life transitions. Two-thirds of advisors believe that widows or widowers will be important to their future business success—but advisors have their work cut out for them when it comes to retaining the money in motion. After their husbands die, more than 70% of widows fire their advisors within a year, according to 2011 Spectrem research.[3]

DIVERSITY COUNTS—MORE SO FOR WOMEN: IMPORTANCE OF CLIENT SEGMENTS FOR FUTURE BUSINESS SUCCESS REPORTED BY SURVEY RESPONDENTS, BY GENDER OF ADVISOR

Client Segment Deemed Extremely or Very Important



Furthermore, the study suggests that women advisors may be better in engaging with target segments. They are far more likely to be proactive (e.g., visiting business owners' place of business) and inclusive in their communications, which builds client trust and solidify relationships.

Advisors also assign less importance to younger investors, ethnic segments, LGBT investors and families with special needs. Young investors are particularly likely to be overlooked, perhaps due to their age, perceived earnings power and position in the traditional hierarchy of clients. Advisors may be missing an important cue from their peers who have already made their move into this segment. Advisors with more than $100 million in AUM tend to have client bases that are more inclusive of investors under age 35.

As noted above, women advisors have more diversified client bases and are much more likely to assign importance to all of the client segments we covered in our research. Critically, women advisors do more than just respect the opportunity these client segments represent—they act to engage them in relevant ways, as we will discuss.

3 Christie, Sherry and Mellan, Olivia. "Madame Ex: Advising 'Gray Divorcees.'" *Advisor One:* http://www.advisorone.com/2012/09/25/madame-ex-advising-gray-divorcees. (2012)

Who is Actually Connecting with the Most Important Segments?

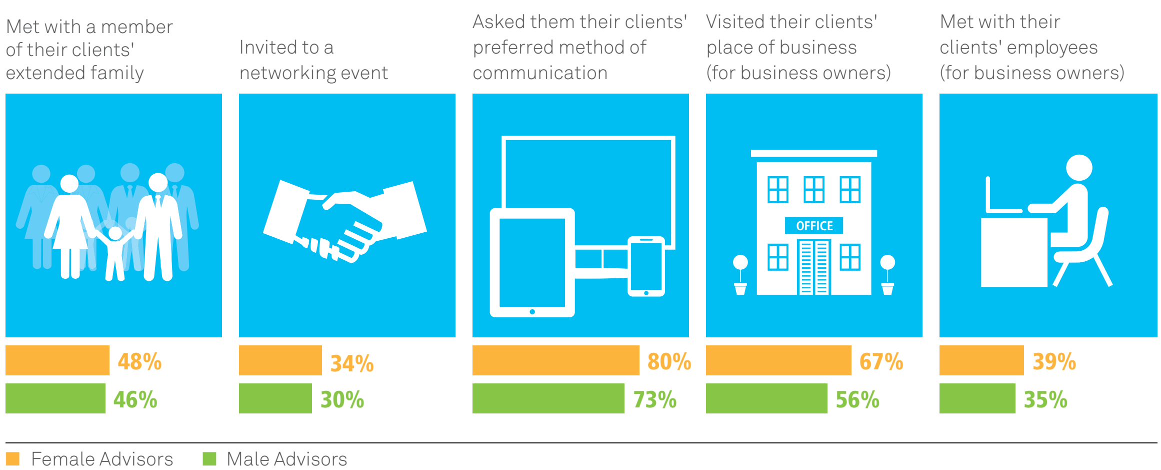
To better understand the connection between valuing an opportunity and acting on it, we took a close look at leading indicators of engagement. For each measure of engagement, we focused on advisors who said they had taken a specific action with a specific minimum of their clients. We discovered that:

- Among advisors who have met with most (51%) of their clients' extended families, 41% say that young investors (ages 25–34) are very or extremely important for growing or maintaining their business. This is far higher than the 29% among advisors who have not engaged these family members as fully.
- Among advisors who communicate equally with both partners for most (81%) of their married or partnered clients, 33% say LGBT clients are very or extremely important for growing or maintaining their business, versus 20% for advisors who do not engage both partners as often or fully.

This finding further shows that women advisors may have an advantage in actually building relationships with the target segments they deem most valuable.

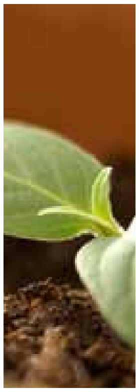
TAKING ACTION: PROACTIVE ENGAGEMENT OF AFFLUENT CLIENTS, BY GENDER OF ADVISOR

Actions taken with clients



This higher level of engagement may drive higher client retention and satisfaction, as well. The top two criteria in a client's selection of an advisor are the experience and the rapport shared with the advisor. Communication and engagement are key elements in these quality measures. Further, poor communication can be as damaging to advisor relationships as bad investment choices: of those affluent investors who have fired an advisor, 29% cite bad investment performance while 28% cite poor communication.[4]

4 Ibid.



FOLLOW THE MONEY—TO THE NEXT GENERATION

Economic and demographic forces are driving enormous shifts in wealth and advisory services. America's population is growing in number and, due to increasing longevity, is leaning more heavily toward older people. This shift matters greatly to advisors, and not only because of the opportunities presented as affluent clients draw down their assets. The younger generation will receive significant wealth transfers in the coming years.

As the average age of American advisors moves upward alongside aging clients, these advisors may not be as motivated to start foundational relationships with the children of current clients. They may be missing out on an enormous opportunity, even in the short term. About $12 trillion in financial and non-financial assets is currently shifting generations. This is in addition to the $30 trillion expected to shift in the next 30 years. Yet only half of advisors offer expertise in intergenerational wealth transfer and less than half offer expertise in trust services.

Similarly, while more than half of the affluent client base has children who are 18 and older, advisors have talked with only 35% of these 18+ children about their finances or future investing. This is a shortsighted approach because children have a tendency to turn away from their parents' advisors after wealth transfer.[5] A relationship of any kind might make a major difference between keeping or losing significant assets.

The younger generation will create an increased demand for advice, especially as their focus on accumulation ultimately shifts to wealth preservation, risk management and distribution. The time is now, while existing clients can act as a bridge to cultivate intergenerational trust and client retention.

What Can Advisors do to Seize the Intergenerational Opportunity?

- Strengthen your capabilities in estate planning and your expertise in managing intergenerational wealth transfer
- Study the extensive literature about the attitudes of younger investors and their desire for transparency and control[6]
- Build relationships with clients' children now so that wealth transfer experiences may be less stressful (if you make the process easier, heirs are more likely to remain with you)
- Help heirs with their financial strategies now, so you may have the opportunity to retain their assets until they pass them on to the next generation

Explore strategies for working with next-generation investors by reading Pershing's advisor guidebook *Generation X and Y Investors Are the Future of Your Business* (Available on pershing.com/generation-xy).

5 Ibid.

6 Accenture, The "Greater" Wealth Transfer, 2012.

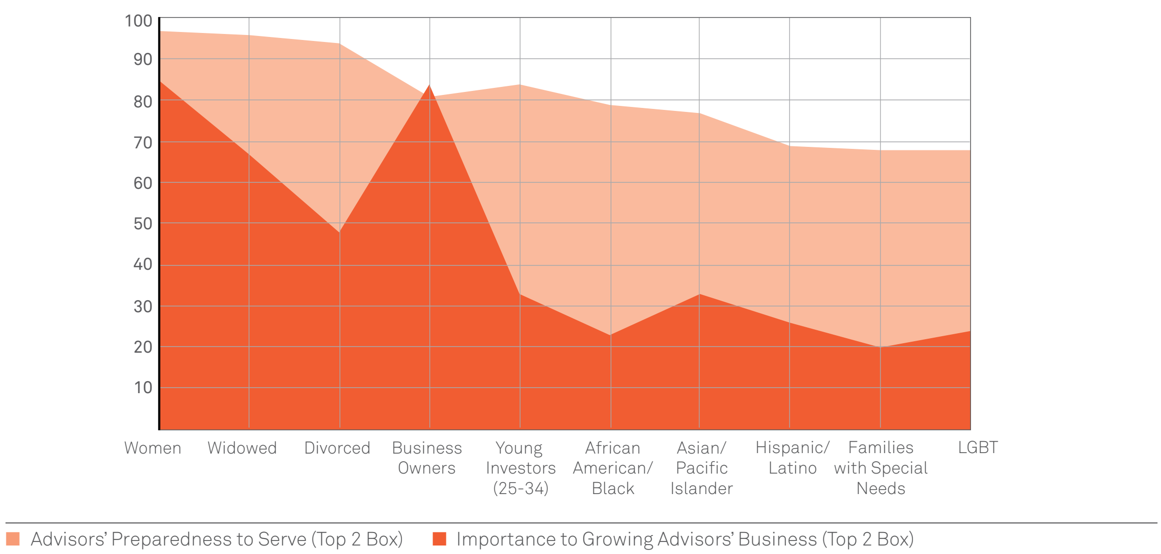
INTENT VS. ACTION

Are Advisors Prepared to Engage Important Targets?

There is a difference between identifying an opportunity and seizing it. Our study looked into this issue to find out if advisors are actually prepared—with the resources and tools—to attract and serve the segments they themselves had identified as important to their future business.

Two-thirds of advisors said they feel “very prepared” to serve the needs of women and business owners, but only a third of advisors feel “very prepared” to serve the needs of any ethnic segments. Meanwhile, one-third to three-fifths of advisors reported that they do not need additional tools to better meet the needs of specific segments. This latter finding might indicate that many advisors either are supremely confident that they can use their traditional methods and knowledge to attract new segments—or that they are simply unaware of the nuances that will help them better engage these diverse affluent segments.

ADVISORS’ PREPAREDNESS VS. SEGMENTS’ IMPORTANCE



When advisors possess particular areas of expertise they generally are more likely to feel “very prepared” to serve related client segments. For example, those skilled in planning for long-term medical expenses are more likely to feel “very prepared” to serve clients with special-needs dependents (31% vs. 23% overall), as are advisors with expertise in strategies for personal giving (27% vs. 23% overall).

Sometimes an advisor's level of preparedness rises based on their access to "centers of influence" who can complement their skills. Advisors who have built relationships with other professionals such as certified public accountants and attorneys are more likely to feel "very prepared" to serve business owners (68% vs. 64% overall).

Interestingly, the greater the number of segments an advisor perceives as extremely or very important for business growth, the more likely he or she is to feel prepared to serve specific segments. In all but one of the key segments of interest, these diverse-minded advisors feel the most prepared among all of their peers. This may indicate that simply by recognizing the role that various segments can play in business growth, an advisor is more likely to take concrete steps toward engaging members of these segments.

SPECIALIZING WHERE IT COUNTS: IMPORTANCE OF AFFLUENT CLIENT SEGMENTS AND ADVISORS' AREAS OF EXPERTISE/OFFERINGS

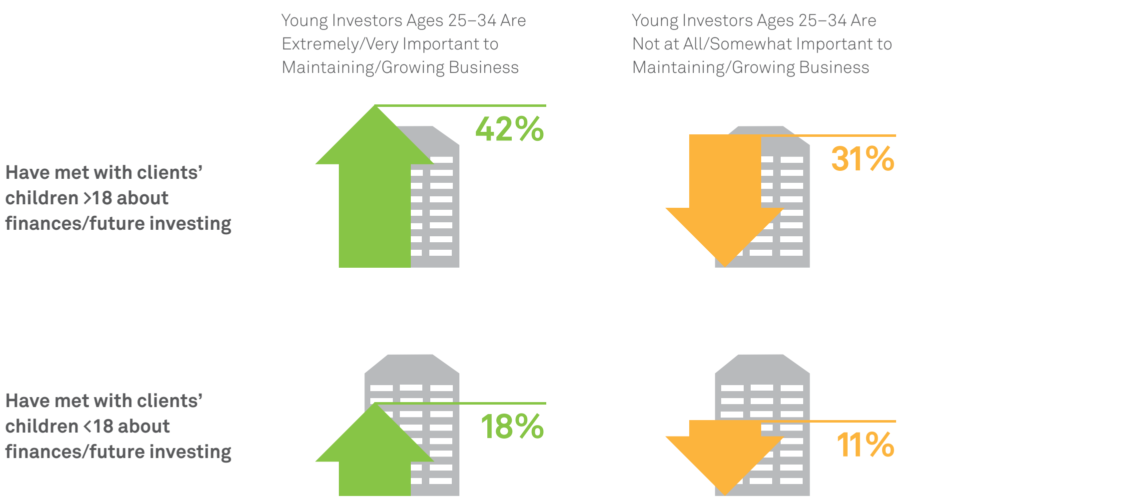
	Number of Demographic Segments in Survey Perceived as Extremely or Very Important			Areas of Expertise / Offerings		
Demographic Segments - % of Advisors Prepared to Serve (Top 2 Box)	3 or more	5 or more	7 or more	Business Owner-Related	Healthcare-Related	Relationships with External Centers of Influence
Women	98%	97%	99%	97%	97%	98%
Widowed	95%	94%	94%	96%	96%	96%
Divorced	94%	93%	96%	93%	95%	95%
Business Owners	96%	97%	99%	96%	95%	95%
Young Investors (ages 25-34)	85%	85%	90%	86%	83%	85%
African-American / Black	79%	80%	93%	78%	84%	81%
Asian / Pacific Islander	78%	82%	94%	79%	83%	78%
Hispanic / Latino	68%	72%	91%	70%	75%	70%
Special Needs Dependents	67%	71%	81%	69%	77%	70%
LGBT	67%	75%	82%	70%	72%	69%

› Simply by recognizing the role that various segments can play in business growth, an advisor is more likely to take concrete steps toward engaging members of these segments.

For many advisors, the children of current clients present a growth opportunity for contacts and new relationships. This does not appear to be for any lack of perceived preparation. In fact, among advisors with clients who have children, 84% report that they are prepared to serve Gen Y investors (ages 25 to 34). Focus in this area does seem to translate to action, as advisors who see younger investors as an important segment for driving growth are significantly more likely to have reached out to clients' children.

COURTING THE KIDS: ENGAGEMENT WITH CHILDREN OF CLIENTS AND THEIR IMPORTANCE TO FUTURE BUSINESS SUCCESS

Contact and Communication with Client's Children



Advisors who are confident about serving business owners often make the effort to meet these individuals on their clients' turf. Advisors who report expertise in serving business owners have, on average, visited 61% of their clients' places of business.

BUILDING THE TEAM TO DELIVER

Aligning Recruitment with Client Attraction Strategies

Research has shown that certain client segments—such as women, first-generation immigrants and younger investors—may gravitate toward advisors who are more like them, but firms seem to be falling far short when it comes to building teams with a more diverse group of advisors.

Client preferences for advisors tend to follow predictable patterns. For example, affluent investors who work with female advisors are more likely to be women. In fact, 27% of female investors choose a female advisor, as compared to only 11% of male investors. Affluent investors often choose an advisor near their age: this was true within every age segment measured, and ran as high as 50% of clients age 45 to 54 reporting a primary advisor in the same age bracket.

Members of some ethnic segments value advisors who speak their preferred language (even if the investor speaks English) and understand their cultural heritage. Interestingly, advisors need not necessarily share the investor's ethnic background—it's the language facility that is key.

Women and non-Caucasian advisors place much more importance than male or Caucasian advisors on the need to recruit new talent from a diverse range of segments. Yet women fall behind non-Caucasian advisors in terms of actively recruiting along those lines. In all cases, the importance assigned to particular groups is not translating into similar rates of active recruitment.

IMPORTANCE OF RECRUITING VS. ACTIVE RECRUITING OF SELECT CLIENT SEGMENTS, BY SEX AND RACE OF ADVISOR

	% Very Important for Recruiting as Advisors in the Next Five Years (Top 2 Box)				% Actively Recruiting Advisors from This Segment (Top 2 Box)			
	Female Advisors	Male Advisors	Caucasian Advisors	Non-Caucasian Advisors[i]	Female Advisors	Male Advisors	Caucasian Advisors	Non-Caucasian Advisors[i]
Women	87%	68%	72%	78%	37%	42%	38%	58%
African-American/Black	62%	40%	44%	58%	25%	26%	24%	36%
Hispanic/Latino	67%	45%	47%	75%	22%	26%	22%	50%
Asian/Pacific Islander	57%	38%	40%	64%	18%	24%	20%	44%
LGBT	63%	32%	38%	58%	19%	22%	20%	28%
Younger Advisors (<25)	42%	32%	35%	36%	25%	27%	26%	33%

i (small base = 36)

> Women advisors and non-Caucasian advisors are keener on recruiting a more diverse team, with the latter group more likely to follow through on that commitment.

Although these findings illuminate the gap between perception of importance and concerted action, they also should alert advisors to the opportunity to gain certain competitive advantages. One clear example would be to provide language and cultural sensitivity training to advisors to heighten their effectiveness in engaging targeted segments.

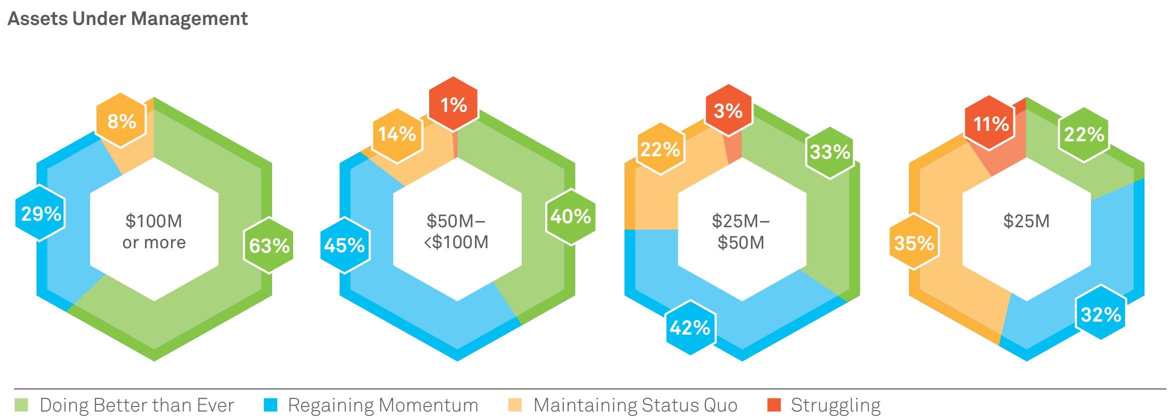
More broadly, the findings may function as a wake-up call: to widen the scope of training to improve client attraction and retention. Such training might involve learning about specific issues of, say, LGBT individuals or younger investors, to better match the prospect's or client's most critical needs to the firm's most salient offerings.

In some cases, training and development strategies will go far enough to bridge the gap between existing advisor capabilities and the needs of a targeted segment. In other cases, out-of-the-box recruiting strategies may be in order. As an example, if a firm identifies an opportunity to serve a large cluster of doctors in a region, it might make sense to hire a pharmaceutical sales rep who is seeking a career change—and has relationships with many medical practices.

LEARN FROM BEST PERFORMERS—AND WATCH THE GAPS

Every advisor's focus is unique, yet we can learn a lot from looking at the experiences of those who say they are "doing better than ever before." Not surprisingly, advisors who say they are experiencing such current success also have the highest levels of assets under management.

HIGHER AUM, BETTER SELF-PERCEPTION: ASSETS UNDER MANAGEMENT BY ADVISOR'S SELF-REPORTED STATE OF BUSINESS

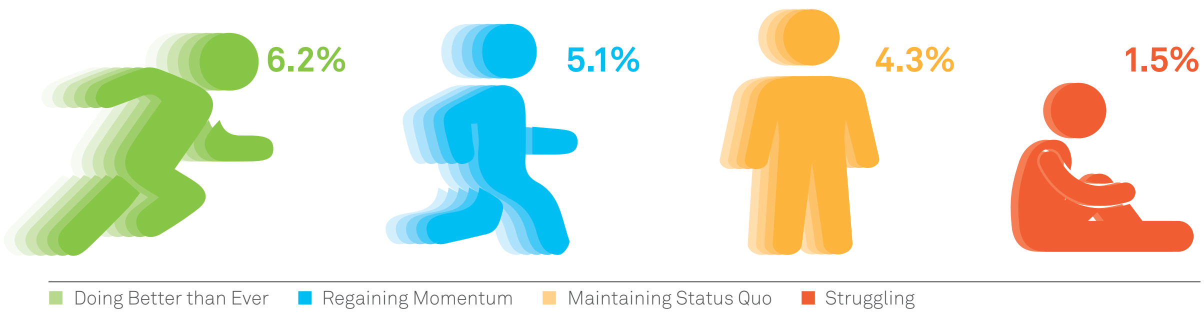


Among advisors who report they are "doing better than ever," the vast majority are also highly optimistic about the future. About 98% expect their assets to grow and 82% expect their number of clients to grow. However, the feeling of optimism among these advisors is not accompanied by a sense that their teams will grow accordingly. Only 34% of these advisors expect that the number of advisors reporting to them will increase.

Interestingly, advisors reporting the highest assets under management ($100 million or more), as well as those saying they are "doing better than ever," have more clients below age 35. Clearly, this younger segment remains small, but it perhaps signals a more balanced business and correlates directly with reported business success.

YOUTH MOVEMENT: PERCENT OF YOUNG AFFLUENT CLIENTS BY ADVISOR'S SELF-REPORTED STATE OF BUSINESS

Young Clients: Investors under the age of 35



Taking a closer look at the alignment of anticipated business growth and staff expansion, we found interesting trends and some gaps between the outlooks of firm owners and their employees. Overall, 75% of advisors expect their number of clients to grow and 90% expect their assets under management to grow; yet only 63% think that the number of advisors serving this growth will remain flat.

Beneath these numbers is a clear management/employee optimism gap. About 81% of firm owners expect their number of clients to grow, significantly more than employees (70%). Employees also tend to have lower expectations for growth overall, and are less likely to expect an increase in the number of advisors reporting to them (22% vs. 36% for owners).

> Want information on how you can improve your recruitment and retention strategies? *Visit talentconnect.com*

BEST PRACTICES

What You Can Do Today to Adapt Your Business for Tomorrow

Here are several strategies you may use to position your business for greater success as the trends we have identified come into greater focus. Investing time or money in any of these strategies today may pay significant dividends in terms of a more diversified client base and greater assets under management tomorrow.

Strategies for Engaging Families

- Start establishing yourself as a champion of financial responsibility when children are young. Send information and engage in activities that are age-appropriate. For example, send school-age children a book about the concept of money or help them start a savings account.
- Take steps to gain accounts with clients' adult children. Parents are perfect potential referral sources if you don't already have a relationship with their children. It may simply be a matter of asking.
- Make sure you are engaging both spouses in a client relationship. Do you have phone numbers for both parties? Do you meet with both parties during your quarterly review meetings?

Strategies for Engaging More Diverse Segments

- Choose a market or markets that you want to specialize in—such as families with special needs, LGBT or divorced individuals—and deepen your knowledge about issues important to them.
- Identify the precise knowledge, expertise and designations you will need to be effective, such as earning a Certified Divorce Financial Analyst (CDFA®) designation.
- Build a network to facilitate your success. If you focus on doctors, build connections with medical management brokers. If you focus on LGBT clients, build connections with community groups, charities or lawyers who specialize in LGBT issues.

Strategies for Increasing Your Business Owner Client Base

- The "entrepreneur opportunity" contains potential for high reward. Advisors can serve three audiences: the business owner's personal finances, business finances and employee benefits and employees of the firm. Success in this market hinges on defining and refining the target audience.
- To unlock opportunities for employees, hold free seminars at firms to explain employee benefits. Research shows that employees only spend 30 minutes a year reviewing their benefits package—they need help.
- Show business owner clients that you respect their busy schedules by visiting their offices. A visit will deepen your knowledge of their issues and provide a basis for future conversations.

Strategies for Building a Team That Can Seize the Future

- Recruit a more diverse team and encourage learning or increasing proficiency in another language such as Spanish or Mandarin.
- For large firms, consider implementing a concerted effort to recruit a diverse population—and champion diversity and inclusion among your sales force.
- While a small firm may not have the resources to recruit a highly diverse workforce, it can encourage advisors to leverage current cultural knowledge and sensitivities to better serve clients.
- Diverse groups almost always outperform homogeneous groups—even those with more brainpower—by a substantial margin.

FOUR KEYS TO YOUR SUCCESS

Our experience and research show that four key issues represent the greatest challenges facing wealth managers today. Our practice management solutions target the areas that my have the largest impact on you business.

This study helps you drive GROWTH.

GROWTH

Achieve your potential through client acquisition and retention, referral programs and mergers and acquisitions

HUMAN CAPITAL

Attract, retain and develop top talent while preparing for a smooth succession

OPERATIONAL EFFICIENCY

Take control of rising overhead costs and build a more streamlined, scalable infrastructure for your firm

RISK MANAGEMENT

Stay in step with fast-changing regulation, and protect your business against unexpected events

APPENDIX: SELF-ASSESSMENT

How Would You Score Yourself?

Now that you have an understanding of your peers' client bases, market perceptions and opportunities, answer the following questions and look to the next page to see how you compare.

1. What percentage of your estimated client base is non-white/non-Caucasian? ____ %
2. What percentage of your estimated client base is made up of women? ____ %
3. For business owner clients, have you visited their place of work? Yes / No
4. For business owner clients, have you spoken to their employees? Yes / No
5. Of your clients who have children, what percentage have you spoken to about future investing? ____ %
6. For what percentage of affluent clients have you done the following:
   a. Met with at least one member of their extended family ____ %
   b. Invited them to a networking event to introduce them to other clients and members of the community ____ %
   c. Asked them their most preferred form of communications (email, phone, text, in-person, etc.) ____ %
7. On a scale of 1-4 (1 being not at all important, and 4 being extremely important), how important are the following groups of investors to maintaining or growing your business in the next five years?

	Not at all important > Extremely important			
a. Women	1	2	3	4
b. Young investors (25-34)	1	2	3	4
c. African-American /Black	1	2	3	4
d. Asian or Pacific Islander	1	2	3	4
e. Hispanic/Latino	1	2	3	4
f. LGBT	1	2	3	4
g. Investors who have dependents with special needs	1	2	3	4
h. Business owners	1	2	3	4
i. Divorced	1	2	3	4
j. Widowed	1	2	3	4

8. On a scale of 1-4 (1 being very unprepared, and 4 being very prepared), how prepared are you to service the following groups of affluent investors?

	Very unprepared > Very prepared			
a. Women	1	2	3	4
b. Young investors (25-34)	1	2	3	4
c. African-American /Black	1	2	3	4
d. Asian or Pacific Islander	1	2	3	4
e. Hispanic/Latino	1	2	3	4
f. LGBT	1	2	3	4
g. Investors who have dependents with special needs	1	2	3	4
h. Business owners	1	2	3	4
i. Divorced	1	2	3	4
j. Widowed	1	2	3	4

9. Now, for each of the 10 segments from the previous two questions, subtract your preparedness score in #8 from your importance score in #7. The segments with the biggest differences will help you prioritize and focus your efforts.

How Do You Compare to Other Advisors?

1. Surveyed advisors report that 16% of their clients are non-Caucasian. Non-Caucasian investors are a growing segment in the U.S., where they are projected to outnumber Caucasian investors by 2052. Are you ready to serve this market?
2. Women make up 40% of the current business of surveyed advisors. Even though women investors comprise this percentage, our research finds that women are often underserved: for example, 70% of women leave their advisors after a divorce.
3. Advisors say that they have visited 59% of their business owner clients at their offices. Visiting your business owner client is an important way to gain greater context around your client's everyday life and work. It is also achance to be introduced to their senior management—and additional referral opportunities.
4. Advisors have spoken with employees of 35% of their business owner clients. Business owners can be a great gateway to new prospective clients.
5. Among clients who have children under age 18, advisors have spoken with 13% of their children about their finances and future investing. Among clients who have children ages 18 and over, advisors have spoken with 35% of these adult children. There remains a large opportunity to engage clients of tomorrow now.
6. Smart advisors are taking action with their clients:
   a. 47% have met with at least one member of clients' extended family
   b. 31% have invited clients to a networking event to introduce them to other clients and members of the community
   c. 75% have asked clients their most preferred form of communications (email, phone, text, in-person, etc.)
7. On a scale of 1-4 (1 being not at all important, and 4 being extremely important), advisors rated how important the following groups of investors are to maintaining or growing their business in the next 5 years. The numbers that follow in parentheses indicate the percentage of advisors labeling these segments very or extremely important (equivalent of scores 3 and 4, Top 2 Box).
   a. Women (85%)
   b. Young investors (25-34) (33%)
   c. African-American /Black (23%)
   d. Asian or Pacific Islander (33%)
   e. Hispanic/Latino (26%)
   f. LGBT (24%)
   g. Investors who have dependents with special needs (20%)
   h. Business owners (84%)
   i. Divorced (48%)
   j. Widowed (67%)
8. On a scale of 1-4 (1 being very unprepared, and 4 being very prepared), advisors rated how prepared they are to service the following groups of affluent investors. The numbers that follow in parentheses indicate the percentage of advisors stating that they are somewhat or very prepared (equivalent of scores 3 and 4, Top 2 Box).
   a. Women (97%)
   b. Young investors (25-34) (84%)
   c. African-American /Black (79%)
   d. Asian or Pacific Islander (77%)
   e. Hispanic/Latino (69%)
   f. LGBT (68%)
   g. Investors who have dependents with special needs (68%)
   h. Business owners (94%)
   i. Divorced (94%)
   j. Widowed (96%)
9. The segments with the biggest differences between your importance and preparedness scores indicate where you should prioritize and focus your efforts.

FIND OUT MORE ABOUT THE COMPANY WE'VE BUILT FOR YOU

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