

Observer

STATS & FACTS



Impressive Growth, But at What Cost ...

Financial advisers increased their client base by 6.1 percent in 2011, the best growth the industry has seen since 2008. Unfortunately, overhead costs per client were also up last year—17 percent—taking 39.2 percent of revenue compared to 38.1 percent in 2010. According to the *2012 FA Insight Study of Advisory Firms: Growth by Design*, although revenue grew with the addition of clients, and firm owners earned nearly \$300,000 in median income, because of greater expenses, median operating profit margins actually fell from 18.9 percent in 2010 to 14.2 percent last year.

Because FA Insight reports that firms expect to grow 6.9 percent this year, and FA Insight predicts 2012 will see another double-digit increase in revenue for independent advisers, what does their survey suggest in the way of success-

fully mitigating costs while growing? Common practices for firms they characterize as having “sustainable growth” (those that have grown without associated negative effects, and whose profit margin was 23 percent last year) include:

- Having a strong target-market focus and molding the value proposition and client experience around it
- Determining specific growth goals and creating a strategic plan for how those goals will be met
- Having sound management and oversight of workflow processes for consistent execution of duties
- Deploying technology in an integrated way to support business-to-client touches, and ensuring staff has adequate technology training and that technology investments are evaluated regularly

Steady as She Goes: Investor Confidence Endures ...

Faith in U.S. capital markets, American publicly traded companies, and the overall national economy remain high in 2012, according to the *Main Street Investor Survey* by the Center for Audit Quality (CAQ). About two-thirds of Americans report at least some confidence in U.S. capital markets, up 4 percentage points from last year, and in every year since 2008, confidence in investing in U.S. publicly traded companies has hovered around 70 percent. Seventy percent of American investors also are convinced the national economy will either stay the same or improve in the coming

year, and 89 percent believe their personal financial situation will stay the same or improve over that period.

But this doesn't mean investors are donning rose-colored glasses or blinders. Their top four economic concerns, according to CAQ, are: having enough money for retirement, health care affordability should they or a family member become gravely ill, maintaining their standard of living, and losing their job. And much of their faith in markets does not extend past the U.S. border. Only 35 percent of investors have confidence in foreign countries' capital markets.

“Dire prognostications are way off base—and the so-called fiscal cliff is perhaps the biggest red herring.... U.S. haven status all but guarantees that the lame-duck Congress and Obama will agree to forgo the austerity that makes up the fiscal cliff, and they won't suffer for doing so. By contrast, failure to agree on that course would trigger huge economic carnage that citizens would blame on the political class. Thus, the fiscal cliff comes down to a choice between kicking the can into 2013 at no political cost or not doing so at high cost.”

—David Gordon and Sean West, of the political-risk consulting firm Eurasia Group, Bloomberg View

STAT BANK



46...Percentage of Americans who have trouble understanding annuities; 27 percent lack clarity about stocks and mutual funds. (Allstate)

1895...The year J.P. Morgan bailed out the U.S. government after gold reserves fell to \$9 million. (Tiburón)

60...Percentage of \$25-million-plus households investing in tax-free bonds—the top tax-advantaged strategy chosen by this group. (Spectrum)

52...Percentage of the general public who perceive China's arrival as a world power to be a major threat to the U.S., compared to 27 percent of scholars. (Pew Research Center)

3 or fewer...Years one needs to live in a home to reach the break-even point where ownership makes more financial sense than renting, in three-quarters of U.S. cities (based on costs such as the mortgage payment, down payment, rent, transaction costs, taxes, etc.). (CNN Money, Zillow)

60+...Percentage of postgraduates and people ages 25–54 working full time for an employer, far above the U.S. average of 45.3 percent. (Gallup)

<\$3...Price per million cubic feet of U.S. natural gas today, compared to \$7–\$8 in 2008. (Knowledge@Wharton)

28...Percentage of small-business owners who expect they will see increased revenue in 2012, as of mid-year; 45 percent of small-business owners under age 44 believe so. (Western Union)

59...Percentage of Americans who would pick a different career if they had the chance to do it all over again. (Yahoo! Finance, PARADE)

51...Percentage of Americans who believe the way to get ahead at work is by playing internal politics, versus 27 percent who say “hard work,” 18 percent “initiative,” and 4 percent “creativity.” (Yahoo! Finance, PARADE)

Are You an Early Adopter? Should You Be? ...

Early adopters of technology and innovation are among the first to purchase new gadgets and jump into social media networking. The Oechsli Institute studied early adopters of social media and reported their findings in *Social Media & Financial Advisors: Early Adopters vs. Casual Users*. The report finds that early adopters (those who use social media daily, acquire client information and research prospects through social media, and have uncovered and gained new business from social media) are finding greater business benefits in their social media efforts than casual users.

While only 16 percent of casual users see moderate to high business benefits from using social media, 73 percent of early adopters do. Early adopters are more likely to find that using social media helps them strengthen client relationships (80 percent) than are casual users (25 percent). And 67 percent of early adopters think

connections with centers of influence are bolstered with use of social media, compared to 23 percent of casual users.

If becoming an early adopter sounds promising, here's a tip from the report. All early adopters have LinkedIn accounts, so to start somewhere, try this outlet before moving on to Facebook and Twitter, which 82 percent and 64 percent of early adopters use, respectively. While the majority of casual users also have LinkedIn accounts, only 24 percent of them believe their page properly brands them, whereas 53 percent of early adopters find the branding appropriate. To get better results out of your LinkedIn efforts, Oechsli suggests spending two hours to further flesh out your profile (career, education, skills, etc.), posting compliance-approved content and updates at least three times per week, and building your contacts by dedicating a few minutes every day to finding quality connections.

“For most retirees, trying to avoid risk by not *investing* is a terrible decision. It's a decision to give up on your dreams. [R]isk is just a reality that needs to be managed.”

—J. Michael Martin, J.D., CFP®, president and chief investment officer of Financial Advantage Inc., in his *BlueSheets* commentary, September 2012