

Observer

Firms Achieving Record Levels of Profitability

Cost control, along with solid productivity and rapidly increasing client profitability, helped the typical advisory firm reach a profit margin of more than 20 percent in 2012, according to a new study from FA Insight—that's the highest margin in five years of FA Insight studies.

Median total owner income also hit a five-year high in 2012, with growth in owner income outpacing growth in firm revenue. The *2013 FA Insight Study of Advisory Firms: People and Pay* found that median total owner income across all firm types in 2012 was \$0.52 per revenue dollar.

Other notable findings from the 2013 study include:

People-related expenditures as a share of all

expenses averaged 75 cents for every dollar in firm costs in 2012, yet firms do not seem to have clear plans for positioning people for the future; nearly 80 percent of firms surveyed have no documented organizational plan for the future.

The share of firms offering incentive pay dropped from 56 percent in 2009 to 52 percent in 2012. "While only one of the many motivational levers for top talent, incentive pay is perhaps the most quantifiable," said Eliza De Pardo, FA Insight's director of consulting and co-author of the 2013 study. "Despite this, the advantages seem to have escaped many firms that may view incentive pay as an expense rather than an effective way to boost performance."

Americans Ready to Buy Health Insurance, Avoid Fine

The majority of Americans (65 percent) surveyed by Gallup in September said they plan to purchase health insurance by January 1, 2014, rather than pay a fine as mandated by the Affordable Care Act (ACA), as of this writing. However, less than half of those currently uninsured say they will obtain health insurance through a federal or state exchange.

Gallup also asked the 5,099 American adults in the survey about their awareness of several pending changes to the health insurance landscape. Although

83 percent of all adults surveyed are aware that most Americans will be required to have health insurance or pay a fine, awareness slips to 68 percent among the uninsured.

Gallup analysts predict the percentage of uninsured Americans who plan to use the new federal and state exchanges will increase, because the demand for purchasing insurance will need to be filled in some way over the next few months, and as awareness of the obligation to purchase coverage grows, so too will the use of exchanges.

"We should drastically increase the pay of our senior financial regulators so that they don't want—or need—to go back and forth from Wall Street to the public sector."

—Robert Johnson, president of the Institute for New Economic Thinking in *Time*

STAT BANK



90...Percentage of U.S. home mortgages that continue to be backed by government-sponsored enterprises like Fannie Mae. *(Time)*

51...Percentage of U.S. adults who were married in 2011. *(Pew Research Center)*

72...Percentage of U.S. adults who were married in 1960. *(Pew Research Center)*

\$0.46...Median owner income per revenue dollar for the “silo” client service approach where a sole professional oversees clients. *(FA Insight)*

\$0.49...Median owner income per revenue dollar for the “team” client service approach where professionals are organized in teams to oversee clients. *(FA Insight)*

92...Percentage increase in the number of institutional investors that reported using ETFs and ETPs from 2005 to 2012. *(ETFGI)*

\$1,500...Reported per hour charge for services delivered by private accounting firm Promontory. *(Time)*

\$1,500...Cost of the Google Glass wearable headset, in its limited-release developer version. *(PolicyMic)*

<\$300...Cost of the consumer version of Google Glass within three to four years of its launch (expected in early 2014), as predicted by analysts. *(BloombergBusinessweek)*

\$1.4 billion...Estimated cost of the two federal government shut-downs in fiscal 1996; \$2.1 billion in today’s dollars. *(Pew Research Center)*

\$745 million...Approximate value of the 4,300 Class A Berkshire Hathaway shares that investor Stewart Horejsi has acquired since 1980. *(BloombergBusinessweek)*

11...Percentage of financial advisers surveyed who have a comprehensive social media strategy in place. *(Matthew Greenwald & Associates)*

Yes, Older Does Mean Wiser

The older your brain is, the more difficult it is to learn new information. However, a research team led by Ye Li, an assistant professor of management at the University of California, Riverside, recently published findings of a study that concluded: experience and acquired knowledge from a lifetime of decision making offsets the declining ability to learn more information.

In their study, older participants (ages 60 to 82) performed just as well or better than younger participants (ages 18 to 29) on tests measuring temporal discounting (how much

people discount future gains and losses), loss aversion, financial literacy, and debt literacy.

The older group showed more patience in temporal discounting as well as superior financial and debt literacy to the younger group. Participants were asked a series of questions to measure their economic decision making traits, and were given standard fluid and crystallized intelligence tests. Fluid intelligence is the ability to learn and process information, while crystallized intelligence is experience and accumulated knowledge.

“There seems to be an unwritten expectation that as an adviser today, you need to be a savvy social media expert. But what we learned is that while clients are open to receiving information to help them learn more about financial products and services, they still prefer a face-to-face conversation to address their financial needs.”

—Sharen King, executive director of the American College Northwestern Mutual Granum Center for Financial Security, referring to findings from the recent report “Media Puff or Real Stuff?”