

# Five principles that set apart top performing advisory firms

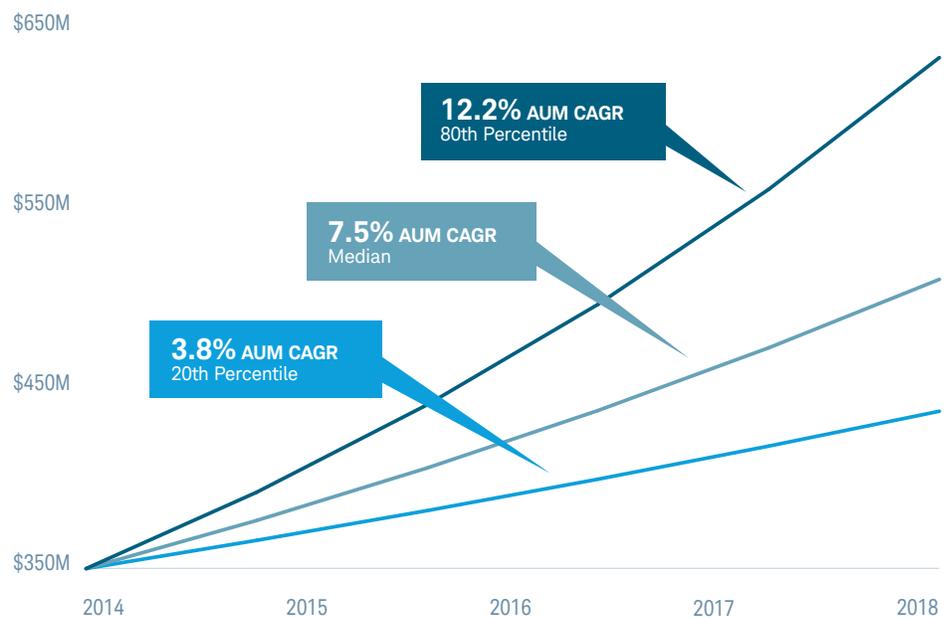
GPS  
Guiding Principle Series™

Independent advisory firms represent \$5 trillion in assets under management (AUM), and the independent model continues to win considerable market share. According to the 2019 RIA Benchmarking Study from Charles Schwab, for the median firm with \$250 million or more in assets, net organic growth contributed 4.1% toward the change in AUM in 2018.<sup>1</sup> Client growth of 4.5 percent in 2018 helped offset investment performance declines and also supported strong revenues, which rose by 10.6 percent at the median. In addition, the median firm recorded a five-year AUM compound annual growth rate (CAGR) of 7.5 percent – an attractive growth rate for any business. As appealing as that growth is, some firms are growing at an even greater rate—the top 20 percent of firms have a five-year AUM CAGR of 12.2 percent, meaning they have increased by one and a half times in size within a five-year period.

The outperformance of these firms is driven by their innovative mindset and ability to effectively prioritize their business needs. Even during volatile markets, these firms understand their biggest risk may be avoiding change or in not making difficult decisions. Sometimes what advisors choose not to do, is just as important as what they do. The top-performing firms make the conscious decision to evolve, even during times of uncertainty, and purposefully seek new ways to operate their businesses—and they focus on five guiding principles.

Learn more about the Guiding Principles  
[advisorservices.schwab.com/  
content/guidingprinciples](https://advisorservices.schwab.com/content/guidingprinciples)

## While all firms demonstrate growth, some firms achieve superior results



Note: This chart shows compound annual growth rate (CAGR) over the five-year period from 2014 to 2018 for all firms with \$250 million or more in AUM.



## Effective planning and execution is a leading indicator of success

Outperforming firms engage in strategic planning, and as they grow, are more likely to have a written strategic plan – 71 percent of firms with \$1 billion or more in AUM have a written strategic plan compared with 55 percent of firms with \$250 to \$500 million in AUM. In addition, outperforming firms focus on and execute their strategic plans. More than simply keeping a list of annual objectives, these firms' leaders articulate a vision for what they want to look like in the future, which allows them to:

- Set direction and gain alignment across the firm
- Drive action on issues that matter
- Choose among initiatives that compete for firm resources



## Value is defined through your clients' eyes

Outperforming firms understand that the client's perception about his or her interaction with a firm determines whether that experience is valuable. That's why outperforming firms are very clear about who their ideal clients are. They identify what those clients really want and design an experience to meet or exceed those needs. This allows advisors more time to establish trust and build sustaining relationships, which can also lead to referrals.

In addition, many firms differentiate by offering value-added services for their ideal clients. According to the Benchmarking study, more firms are offering value-added services to differentiate themselves and attract and retain clients. Many firms are moving from more transactional services to those that help build deeper relationships—tax planning and strategy, charitable planning, and family education—and may help retain intergenerational wealth.

## Firms with a documented ideal client persona and a client value proposition earn significantly more than those without strategies.



Note: Data represent median results for firms with \$250 million or more in AUM. Results are from the 2018 RIA Benchmarking Study from Charles Schwab.



## Your reputation is your brand

In 2018, growth in assets from new clients for fastest-growing firms totaled 6.8 percent – almost two times more than all other firms.

For top growers, existing client referrals and marketing contributed equally to new client asset growth, which indicates a more robust growth strategy that incorporates a broad set of tactics.

## Fastest-growing firms' key metrics

	Fastest-growing firms <sup>2</sup>	All other firms	Multiple
5-year net organic growth CAGR	14.3%	3.7%	3.9x
Net organic growth clients in 2018	\$68 million	\$20 million	3.4x
Number of new clients in 2018	49	28	1.8x
Assets from new clients in 2018	\$46 million	\$27 million	1.7x
Growth in assets from new clients in 2018	6.8%	3.6%	1.9x

These firms extend their brand by word of mouth and other tactics, including networking, community involvement, social media, email, webinars, and speaking engagements. They consistently tell their stories through multiple channels and effectively communicate their value propositions in their target markets.



## Operational excellence creates greater capacity for clients

Efficient advisory firms serve more clients representing greater AUM, yet spend less time per relationship. These firms leverage technology, workflows, and training to create consistent ways of working across the business to achieve operational excellence. According to Schwab's 2019 RIA Benchmarking Study, 36 percent of these firms integrate three or more data sources or systems with their CRM—a 24 percent increase from 2014—and 37 percent of firms use standardized workflows within the firm's CRM for over 50 percent of tasks—up 19 percent from 2014.

Operational excellence also involves a strong culture of compliance, which is critical to protecting client trust. Ninety-two percent of firms emphasize employee training related to cybersecurity initiatives, and many have programs that increase client awareness and education about cybersecurity.



## People are your most important asset

Virtually nothing of any importance can be accomplished without incredible talent. With 76 percent of firms planning to hire in the next 12 months, advisors face tough competition. Firms must protect their greatest assets—their people— by creating a cycle of opportunity. Top-performing firms effectively recruit and hire talent and motivate their employees with attractive compensation packages including salary benefits, and incentives such as equity sharing. According to Schwab’s RIA Benchmarking Study, 27% of firm’s offer equity sharing as a means to retain key talent, which can allow everyone to share in the success of the firm and influence an ownership mindset motivating staff to contribute toward the firms’ success.

Creating and maintaining a culture in which motivated individuals can triumph and participate in the success of the firm is critical for retaining employees.

These firms also develop their talent through clear and meaningful career paths and thoughtfully grow their best talent through increasing responsibilities and leadership development. Working in concert, these strategies increase the likelihood of acquiring, developing, and retaining key talent and capabilities within the team over the long term and can result in a succession plan that allows a firm to continuously serve its clients well into the future.

### About Schwab Guiding Principle Series™

The Guiding Principle 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 more than 20 years, Schwab Advisor Services™, the leading custodian of over 8,000 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.

Visit [advisorservices.schwab.com/guidingprinciples](https://advisorservices.schwab.com/guidingprinciples) to learn more.

# GUIDING PRINCIPLES FOR ADVISORY FIRM SUCCESS



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<sup>1</sup> The 2018 RIA Benchmarking Study from Charles Schwab. Median results for all firms with \$250 million or more in AUM. Net organic growth is the change in assets from existing clients, new clients, and assets lost to client attrition before investment performance is taken into account, and it excludes the growth from acquisitions, divestitures, and advisors joining or leaving a firm with assets.

<sup>2</sup> Fastest-growing firms are the top 20% of firms with \$250 million or more in AUM based on 5-year net organic CAGR. All other firms represent the remaining 80% of firms. All results are medians.

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#### **About the 2018 RIA Benchmarking Study from Charles Schwab**

Schwab designed this study to capture insights in the RIA industry based on survey responses from individual firms. The 2019 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. Fielded from January to March 2019, the study contains self-reported data from 1,310 advisory firms that custody their assets with Schwab and represent \$1.1 trillion dollars in AUM, making this the leading study in the RIA industry. This self-reported information was not independently verified.

The RIA Benchmarking Study comprises self-reported data from advisory firms that custody their assets with Schwab. Schwab did not independently verify the self-reported information. Participant firms represent various sizes and business models. Study results are for all firms with \$250 million or more.

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