
Advisors optimistic about 2013 ROA: Russell

By Editor Test *Mon, Dec 17, 2012*

If an advisor's return-on-assets from his business is less than 70-90 basis points, it may indicate that he or she is still using a transactional business model, said Sam Ushio of Russell Investments' U.S. advisor-sold business.

Financial advisors predict stronger growth in return on assets (ratio of a firm's revenue to assets under management) in 2013, despite a generally disappointing 2012, according to Russell Investments' latest Financial Professional Outlook (FPO) survey.

Nearly half (49%) of the respondents said they didn't see the kind of ROA growth in 2012 they anticipated. Only 21% reported that their ROA grew more than expected.

On average, survey respondents expected to see 7.6% ROA growth in ROA in 2012 and only realized 7.2%. For 2013, respondents are more optimistic, expecting 8.4% growth in ROA on average. Two-thirds (67%) of respondents said the current ROA on their books of business is 80 basis points or less.

"A reasonable aspirational ROA level is around 70-90 basis points on the overall business. If an advisor is earning less, it may indicate that they are still using a transactional business model," said Sam Ushio, practice management consultant for Russell's U.S. advisor-sold business. "At a deeper level, a lower ROA may reflect an advisor's tendency to discount the value they deliver to clients, which often correlates with confusion on the competitive landscape."

To grow ROA, 62% of survey respondents are focusing on deepening client relationships, 58% are seeking out new clients, 53% are asking for referrals, 43% are moving clients into fee-based relationships and 32% are moving client cash off the "sidelines."

When asked which of their client segments they expect to see the most ROA growth from in 2013, 64% of advisors pointed to clients nearing or very near retirement.

Among those advisors expecting the most growth from clients 5-20 years from retirement, 53% are asking for referrals, while 52% plan to move clients to advisory-based relationships. For advisors expecting most of their growth from clients who are less than five years from retirement, 60% are focusing on client service and deepening relationships.

In the latest survey, taxes were the top subject of advisor-initiated conversations (36% of advisors) while 23% say clients are bringing up the topic. Advisors also pointed to generating income from portfolios (30%) and running out of money in retirement (30%) as issues they raise most often with clients.