Retirement Income
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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.