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The direct channel is growing: Cerulli

By Editor Test *Thu, Mar 22, 2012*

Cerulli predicts the direct market will grow to close to $5 trillion and will control close to 10% of retail managed accounts assets by 2014, equating to $380 billion.

The growth of the direct channel growth outpaced that of the advisory channels over the past two years, posting a compound annual rate of 19% versus 14% for advisory channels, according to a new report from Cerulli Associates. At $3.68 trillion in assets, it is now the second largest retail distribution channel.

The giants of the direct market—Vanguard, Fidelity, T. Rowe Price and others—continue to rely on low prices to attract customers. But they've steadily added advice and are working harder to gather assets.

"The direct channel [isn't simply] asset managers distributing their own products to end investors," said Katharine Wolf, head of Cerulli's retail investor practice, in a release. "[It's] a distribution model characterized by… corporate-driven client acquisition, salaried representatives, and corporate-driven advice."

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Ownership of direct accounts is broad, but lies just below the surface. More than 66% of households report owning a direct account, Cerulli said, but only 25% of households use a direct account as their primary provider relationship.

Direct firms serve clients with a multi-channel approach (iphone, web, in-person, email, and chat) to maintain consistent client experiences and—when all the parts mesh properly—an impression of seamless handling.

Direct firms are now among the fastest growing channels distributing mutual fund advisory programs, with new firms are entering the space, Cerulli said.

"Newer entrants… include RIA firms, banks, and technology-driven offerings," Cerulli said. "The direct model has applications for clients in all wealth tiers, but its sweet spot is clients with between $100,000 and $2 million in investable assets."