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What We Learned from Talking to 100+ Advisors: Industry Trends and Strategies



Presenters:

John Hill, CEO, Pinnacle Advisory Group

Peter McGratty, VP of Business Development, Pinnacle Advisor Solutions

John Hill, CEO, Pinnacle Advisory Group



John is Chief Executive Officer of Pinnacle Advisor Solutions. John is also founding principal and Chief Executive Officer of Pinnacle Advisory Group Inc. He began practicing financial planning in 1985 and became a Certified Financial Planner (CFP®) in 1988. John has a bachelor's degree in Economics and Business Administration, and has completed graduate work in MBA and Masters Financial Planning programs. He has been active in the Financial Planning Association (FPA) since 1987, and is a past President of the Maryland Chapter. John has spent several years developing an expertise in the business of medicine, including a significant involvement in physician merger, sale and acquisition planning. As CEO, John's responsibilities include strategic planning, management of key personnel, as well working with members of the client advisory team.

Peter McGratty, VP of Business Development, Pinnacle Advisor Solutions



Peter is Vice President of Business Development at Pinnacle Advisor Solutions. Peter is most recently Managing Partner of Precursor Research, the first independent research and advisory firm serving independent financial advisors nationwide. Precursor Research and Pinnacle Advisory Group partnered to form Pinnacle Advisor Solutions.

Pete has more than twenty years experience in finance as a Wall Street Journal All-Star research analyst, as a hedge fund manager that anticipated and avoided the financial crisis and as Chief Financial Officer of several venture-backed businesses. Peter graduated from Georgetown University and is a Chartered Financial Analyst.

Background

- Pinnacle Advisory Group
 - Break-away from major financial institution 20 years ago.
 - Grown to 700 families with nearly \$1 billion AUM.
 - Four-time winner of Moss Adams “Best Managed Practice”.
- Pinnacle Advisor Solutions
 - A new division of Pinnacle Advisory Group launched 6/11.
 - *Business Solutions For Advisors by Advisors*
 - Outsourced investment and back

Agenda

- 1 Research Methodology & Today's RIA Industry Overview
 - 2 Business Development and Growth Challenges
 - 3 Risk Management and Market Volatility
 - 4 Strategies and Solutions
 - 5 Q&A Session
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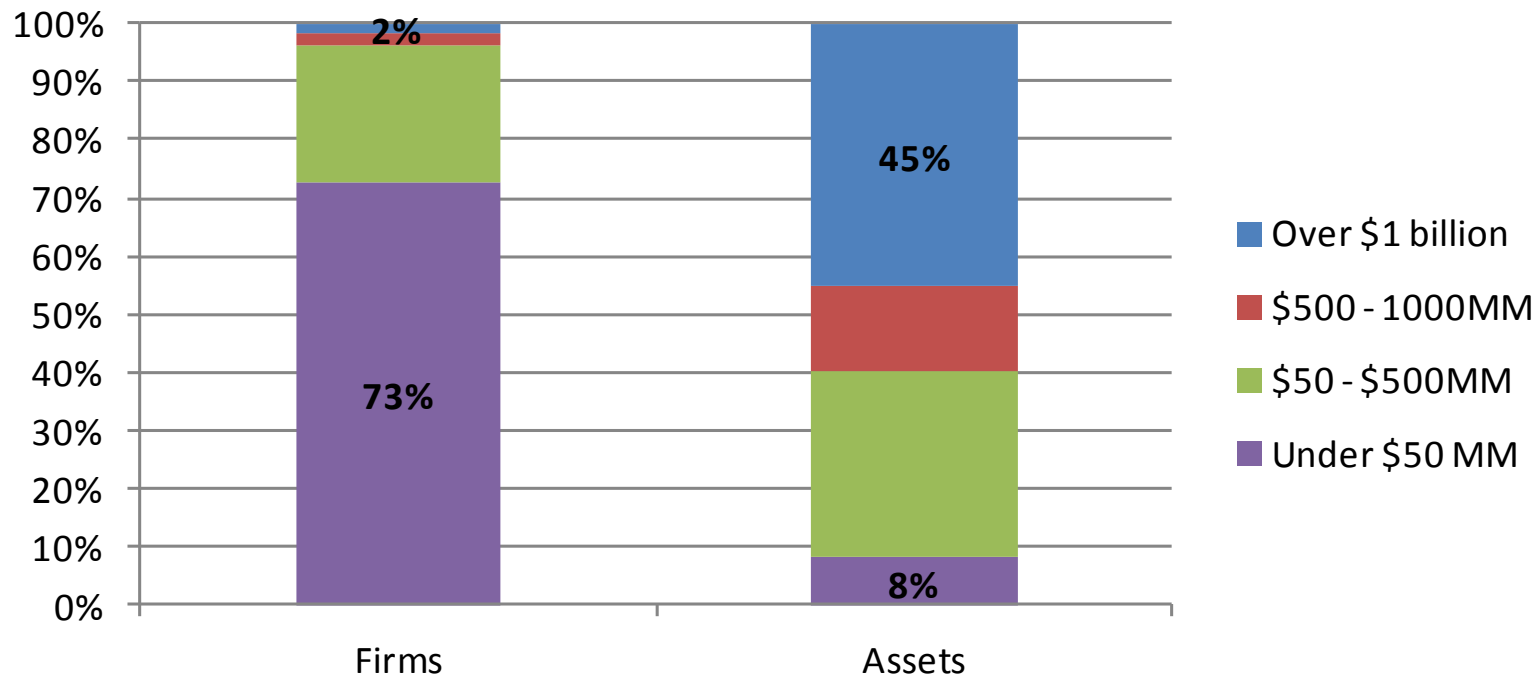
Research Methodology & Today's RIA Industry Overview



A Lopsided Competitive Dynamic

RIA Firm & Asset Distribution

(Source: Cerulli Advisor Metrics, 2010)



The Golden Era (1980s + 1990s)

- Secular Bull Market Enabled Emerging Advisors
 - Advisors could succeed with limited time and money
- Rising Markets Reduce Demands on Time
 - AUM Grows without Proactive Business Development
 - Client Satisfaction High Requiring Less Customer Service
 - Rising Markets Allow for Passive, “Set It & Forget It” Strategy
- Rising Markets Reduce Costs & Increase Profitability
 - Less Business Development Means Less Marketing Costs
 - “Set It & Forget It” Investing Means No Research or Staff

Are Economies of Scale Back in Play?

- Secular Bear Turned a Tailwind into a Headwind
 - “Economies of Scale” Back in Play
 - Demands Greater Investment of Time & Money
- Turbulent Markets Increase Demands on Time
 - Proactive Business Development to Maintain + Grow AUM
 - Proactive Client Communication to Soothe Worried Clients
 - Volatile + Real Time Markets Demand Risk Management
- Turbulent Markets Hurt Profitability
 - Business Development & Marketing Costs Money
 - Risk Management Demands Expensive Staff and Research

Can We Help Emerging Advisors Succeed?

- We were there once and know its hard.
- We know what works; and what doesn't work.
- We have resources that they don't.

Extensive Market Research

- Met with 100+ Advisors
 - What is working?
 - What isn't working?
 - Where do you need help?
- Sponsoring Emerging RIA Association
 - Discuss issues facing Emerging Advisors
 - Regional Symposiums
 - LinkedIn Group: Emerging RIA Association

What We Learned ...

1. Frustrated they cannot grow.
2. Unsure how to build their business.
3. Looking for a risk-managed investment solution in times of market volatility.

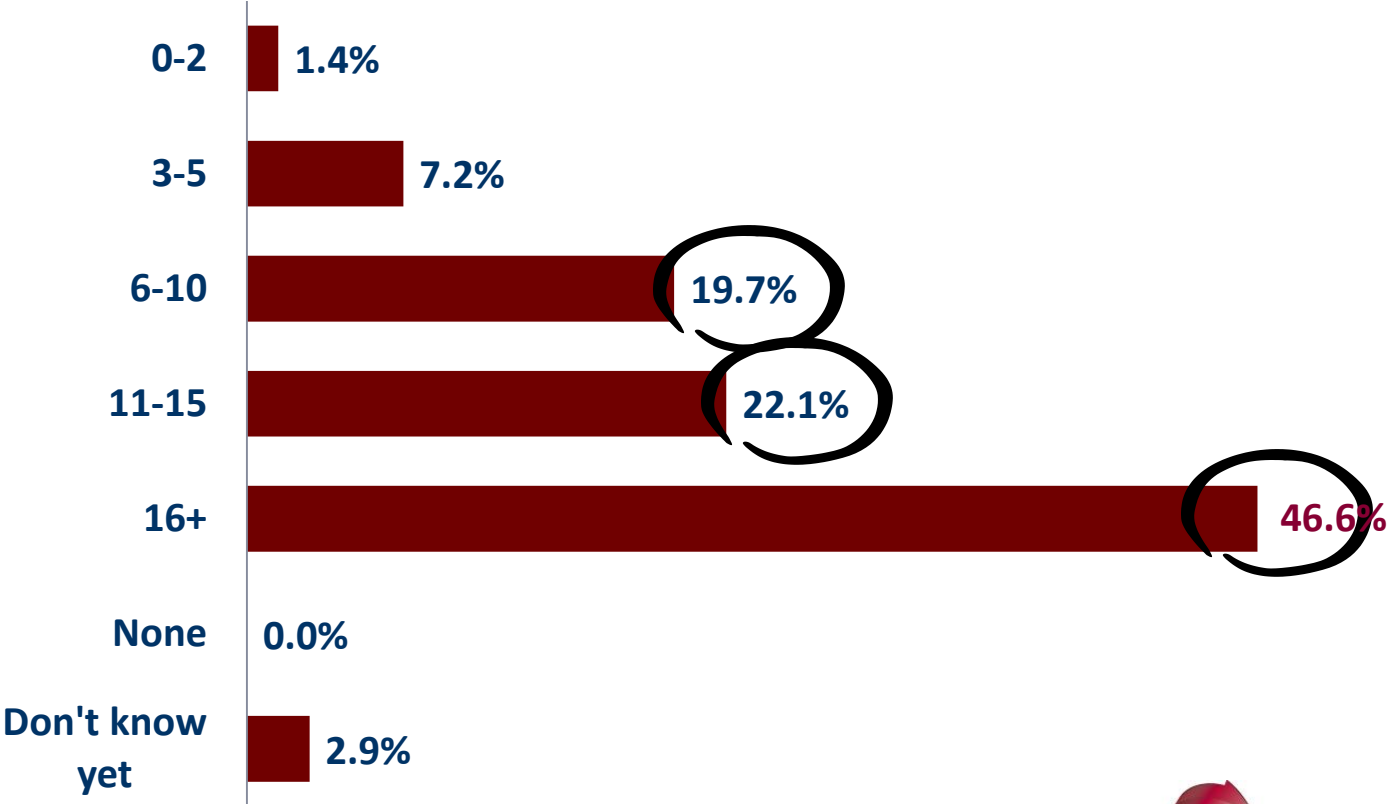
Business Development and Growth Challenges



Steep Growth Goals for 2012

How many clients do you want to acquire during 2012?

(Responses n = 208)



Time is Not on Your Side

“I work tirelessly to help my clients reach their personal and financial goals ...

... but there is so little time left over that I am not meeting my own income and lifestyle goals.”

RIA Principal Time Allocation

	Range
Business Development	15 - 20%
Client Meetings	25 - 30%
Investment Management	20 - 40%
Back Office & Client Service	20 - 25%
Compliance	10%
Training & Other	<u>10%</u>
Total	100%

Sources: Pinnacle Advisor Solutions, Fidelity, Cerulli Associates

There is Just Too Much to Do

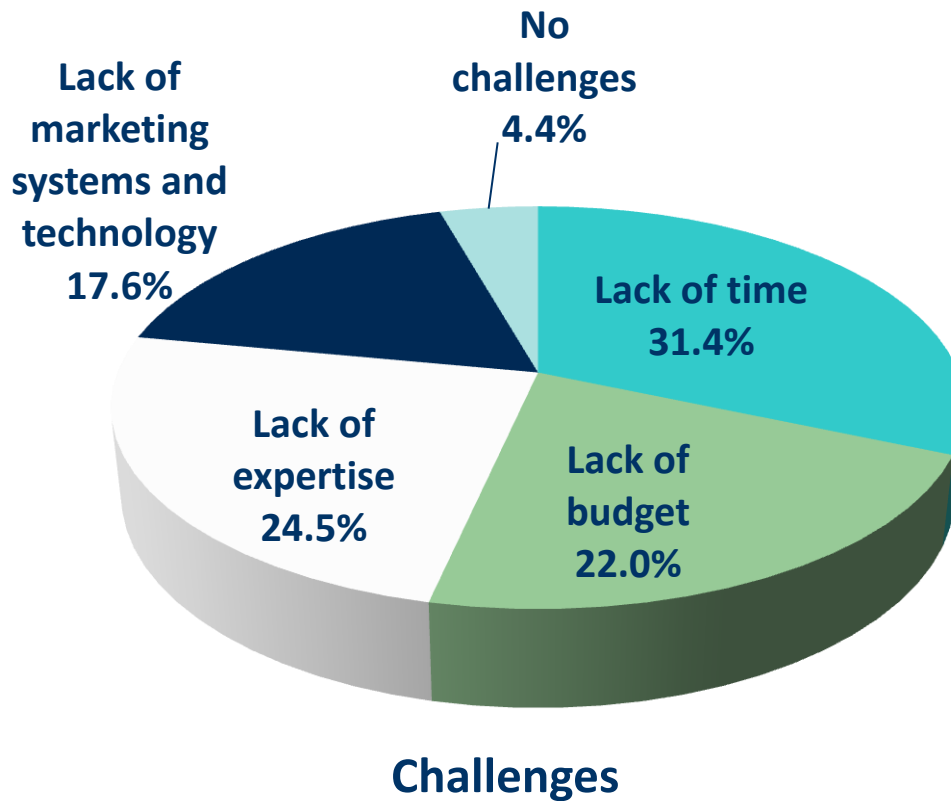
- Custodian relationships
- Trading Platform(s)
- Security selection
- Investment models
- Research
- GIPS compliance
- Planning software
- CRM
- Office space
- Phone/Mobile
- Office equipment
- Portfolio software
- Staff Training
- Staff hiring
- Staff reviews
- Advisor compensation
- E & O Insurance
- Business Insurance
- Client Service

- Overall Marketing
- Sales
- Client events/retention
- Client meetings
- Industry involvement
- SEC notice filings
- SEC Audits
- Compliance
- Tax filings
- Payroll/Pension
- Benefits
- Paperless Office
- Disaster Recovery
- Servers & PCs
- Downloads
- Continuing Education
- Pricing
- Bonus/Pay plans
- Benchmark Studies



Challenges for Today's Advisor

What would you consider your greatest marketing/business development challenge (if any)?
(Responses, n=159)



How Do I Build My Practice?

How do I grow clients and AUM?

How do I invest to meet that growth?

Build Enterprise Value

Succession Planning / Exit Strategy

I don't really have a contingency plan.

Marketing,
People &
Technology

Practice
Management

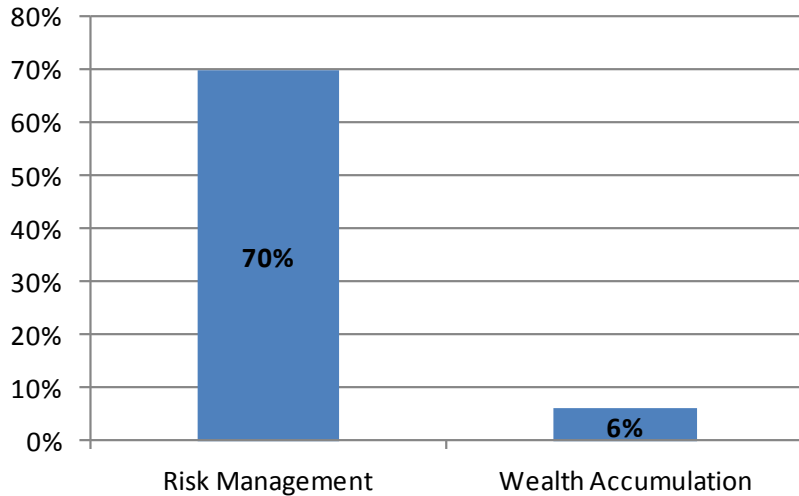
Risk Management and Market Volatility



Navigating Volatile Markets

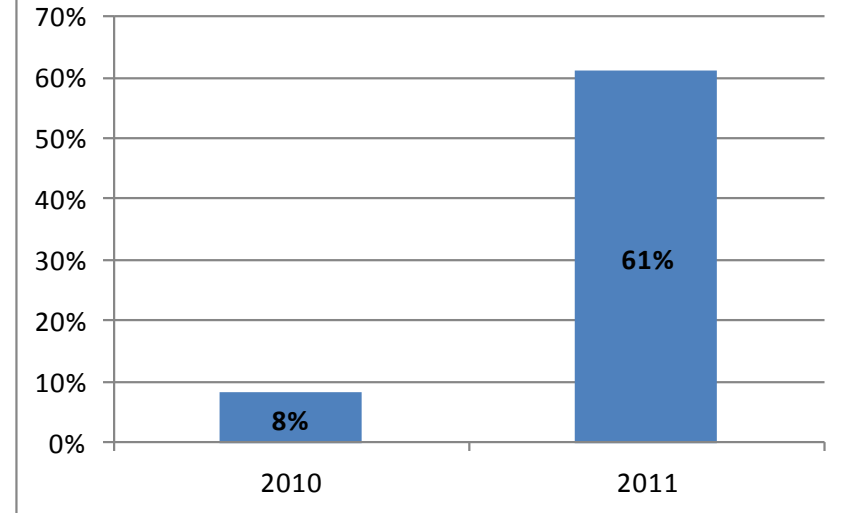
Client Investment Goals

(Source: Investco / Cogent Research Survey)



Advisors Adopting Tactical

(Cerulli Associates Survey, Sep 2011)



Same Strategy, Same Result

- We have seen this movie twice before
 - Tech Bubble in 2000
 - Real Estate Bubble in 2008
 - Sovereign Debt Crisis Next?
- Growing Skepticism Among Clients
 - Markets Don't Always Go Up ... Not Even Long Term
 - The Idea of Risk Sounds Better than the Reality of Risk

Strategies and Solutions



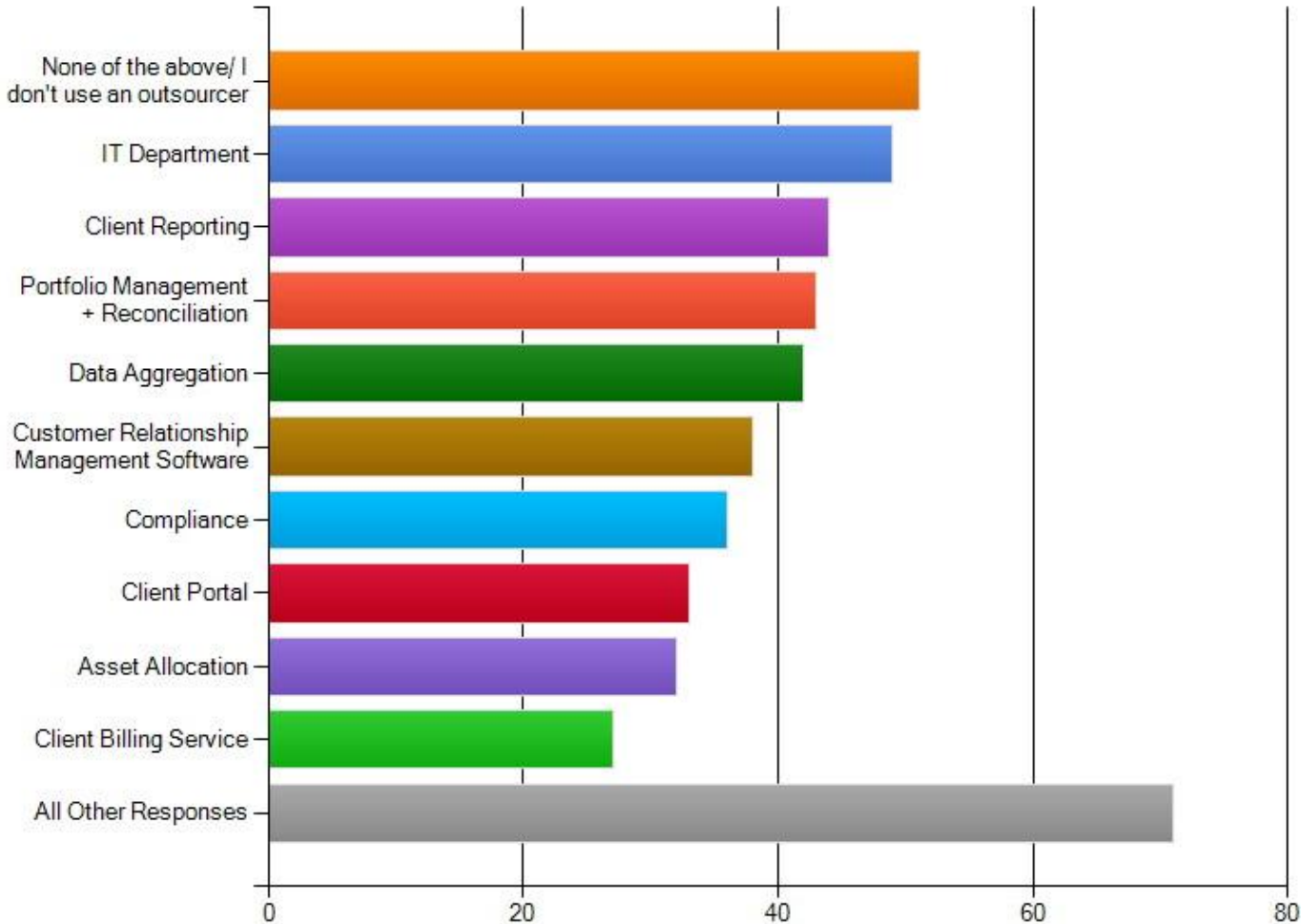
What are my Strategic Choices?

- **Merge**
 - Join an RIA with greater resources
 - Lose independence.
- **Partner**
 - Pool Resources / Division of Labor
 - Can you find the right partner(s)?
- **Strategic Partnership / Outsourcing**
 - More choices than ever before.



Outsourcing Options

Do you currently use an outsourcer for any of the following? (please check all that apply)



Other Options Include:

- Marketing
- Risk Management
- Investment Advice
- Practice Management

Strategic Partner / Outsourcing: Pinnacle Advisor Solutions

Outsourcing

- Free 40-80% of your time
- Risk-Managed Investing
 - Assets at your custodian.
 - 9-year GIPS Compliant Record
 - Robust Communication
- Back Office
 - Complete integrated platform.
 - Dedicated service team.

Strategic Business Consulting

- Use time to accelerate growth.
- Learn from Pinnacle Partners.
 - How to grow.
 - How to invest to support growth.
 - How to create enterprise value.
 - Contingency planning.
 - Succession Planning.

Case Study: Pinnacle Advisory Group Summer 2011

- Investment Team
 - Dedicated five person team with substantial resources.
 - Evaluate valuation, market cycle and technical data in real time.
 - Reduced equity allocation 4x. Adjusted 6/8 sectors within equity allocation.
 - Hosted 2 conference calls with advisors, published 2 special reports, posted 16 articles to blog “Echoes from the Pit”.
- Wealth Management Teams (Advisors)
 - Re-evaluated risk profiles and plans of most worried clients.
 - Communicated investment outlook and response to market events.
 - Confident knowing dedicated team will produce better results and responding to real time market events while advisor meets with clients.

Comparing Models: Financial Crisis

In-House Strategic Asset Allocation

Outsource Risk-Managed Strategy

Assumptions

New Clients
New Client AUM
Portfolio Returns

<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>Run Rate</u>
	(2)	0	
	1,000,000	1,000,000	
	(22.91%)	17.56%	

<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>Run Rate</u>
	2	4	
	1,000,000	1,000,000	
	(16.57%)	19.18%	

Revenues

Begin AUM
Net Additions
Net Returns
End AUM
Average AUM

	30,000,000	22,038,939		
	(2,000,000)	0		
	(5,961,061)	4,242,532		
30,000,000	22,038,939	26,281,472		
30,000,000	26,019,470	24,160,206		
30,000,000	26,019,470	24,160,206	26,281,472	
0.90%	0.90%	0.90%	0.90%	
270,000	234,175	217,442	236,533	

	30,000,000	27,256,314		
	2,000,000	4,000,000		
	(4,743,686)	6,206,571		
30,000,000	27,256,314	37,462,886		
30,000,000	28,628,157	32,359,600		
30,000,000	28,628,157	32,359,600	37,462,886	
0.90%	0.90%	0.90%	0.90%	
270,000	257,653	291,236	337,166	

Profit & Loss

Revenues
Expenses
Pretax Profits

270,000	234,175	217,442	236,533
108,440	111,693	115,044	115,044
161,560	122,482	102,398	121,489

270,000	257,653	291,236	337,166
108,440	111,693	115,044	115,044
161,560	145,960	176,192	222,122

Current Income to Begin Income

-24% -37% -25%

-10% 9% 37%

Y / Y Change

	(35,825)	(16,733)	
	3,253	3,351	
	(39,078)	(20,084)	
	(39,078)	(59,162)	

	(12,347)	33,583	
	3,253	3,351	
	(15,600)	30,232	
	(15,600)	14,632	

Next Steps / Action Items Chart

- Strategic Planning
 - What do you want your business to look like? “Start with the end in mind”
 - Take inventory ...
 - On your strengths and weaknesses
 - On what you enjoy and what you dislike
 - Plenty of practice management firms available to help.
- Take the First Step
 - Decide on a manageable first step.
 - Identify the firms that can help ... Virtual Solutions for Advisors.
 - Engage with those firms



Questions?



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