Marketing to Today's RIA:
What Every Asset Manager Should Know

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In an effort to help asset managers develop marketing strategies that have a greater impact on Registered Investment Advisors (RIAs), Morningstar and SwanDog Strategic Marketing undertook a comprehensive study in Spring 2009.

Through that research, we sought to:

- Understand RIA behavior—particularly in terms of service expectations, communication and information consumption
- Gauge RIA perceptions of existing asset manager marketing efforts
- Distinguish initiatives that RIA's value from those they do not
- Identify unmet needs and opportunities

Overview

Despite the market's pullback and a corresponding advisor shake out, the Registered Investment Advisor (RIA) channel continues to expand.

Not only are these "Wealth Managers" significant in number, but they offer asset managers the promise of:

- Access to more affluent investor clients and the potential for more sizeable flows
- Significant demand for packaged products
- Greater opportunity to influence the advisor's "purchase decision"

RIAs — More Experienced with More Assets Under Management

It wasn't long ago that RIAs operated on the fringe of investment distribution—a collection of quasi-money managers that drew little interest from investment management firms. Instead, the investment managers chose to focus on large, high volume branches rather than the disparate "ones and twos" that dominated the independent and RIA channels. However, as the marketplace has matured and become more saturated, those managers are now seeking new sources of distribution. Chief among those is the Registered Investment Advisor.

Desire for Control Fuels Growth

The desire for greater control (from investment selection and personal brand to how expenses and compensation are structured) combined with the availability of substantially better support platforms (from leaders such as Schwab and Fidelity) is energizing the movement of these entrepreneurial advisors. Combine that with the ownership disruption taking place at the wirehouses and you can see that the RIA channel is today attracting a much different type of rep; one whose practice is more seasoned and "evolved" than ever before.

RIA Profile

Highly Experienced	62% over 10 years in business.
Growing Positions	48% have over $50mm AUM, non-RIAs only 38% over $50mm AUM.
Servicing More Affluent Clients	57% service clients with AUM over $1mm, non-RIAs only 43% service clients with AUM over $1mm.

In examining the RIA profile, 62% of RIAs claim over 10 years as a financial advisor. This depth of experience leads to more established practices. As a result, nearly half of RIAs manage over $50 million, with several recognized among the industry's top producers.

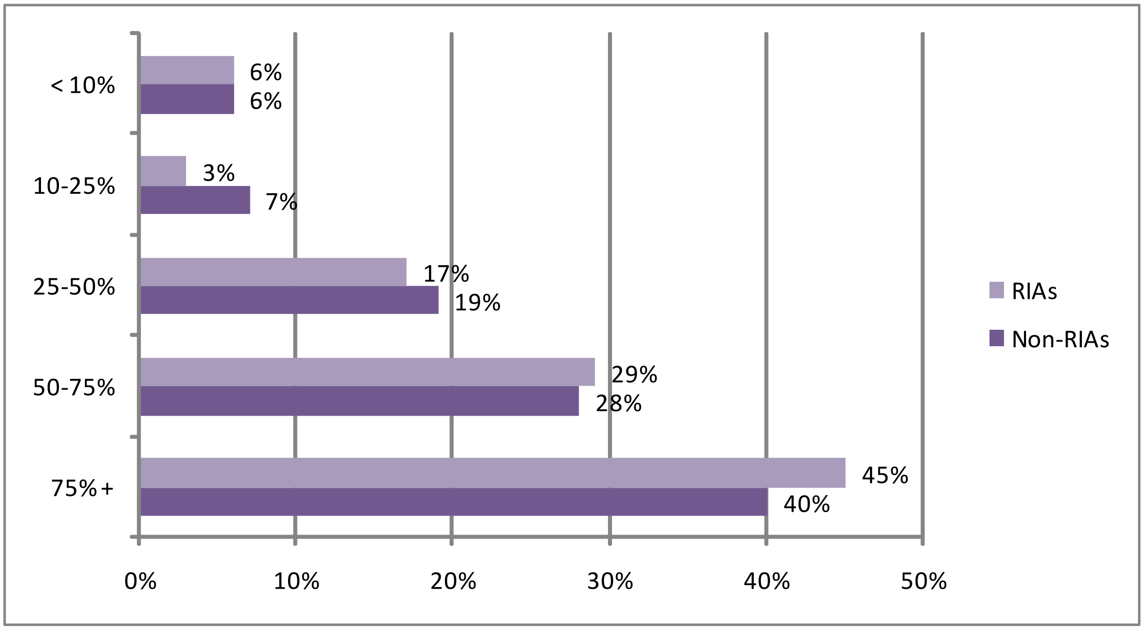
When it comes to investor clients, RIAs have historically targeted the High Net Worth market and that trend shows little sign of abating. RIAs continue to successfully expand their presence at the top end of the market, with 57% serving clients with $1m+, compared to 43% for non-RIA advisors.

RIAs Use 'Packaged Products' to Meet Client Needs

As investment managers continue to explore the potential of the market, it's worth noting their extensive use of mutual funds and insurance products. Among respondents, nearly half use packaged products (funds or insurance) for most client solutions (75%+), and another 29% look to these products more often than not (50-75%). While ETF use is clearly on the rise, (several ETF providers received best in class nods, they still represent only a small part of the pie.

RIAs Depend on Packaged Products

Percent of AUM in Mutual Funds and Variable Annuities



RIAs Exercise Greater Discretion over Investment Choice

In addition to targeting this channel for its growth trajectory, the RIAs almost absolute discretion over investment selection offers further promise to asset managers. Our perspective regarding discretion stems from two key findings:

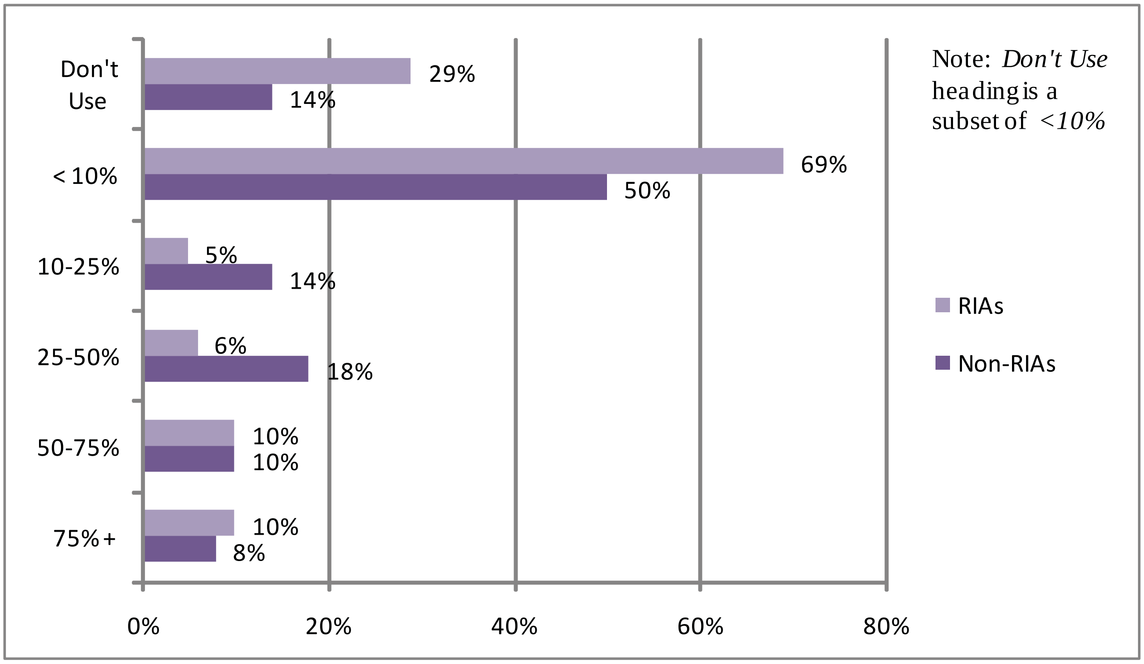
- RIAs don't typically suffer the constraints of analysts and approved lists
- Use of wrap and advisory programs is far less than that of non-RIAs

Analysts & Approved Lists are Within the RIAs Scope of Control

Despite their own models and screens, most RIAs aren't limited in their choice of investment manager. As such, this channel may offer greater opportunity for a small- or mid-sized investment manager to tell their story versus through a top down distributor. On the other hand, the volumes available may not offset the added expense attributable to RFPs and due diligence.

Less Use of Advisory Platforms

As you can see in the following chart, use of wrap and advisory platforms among RIAs is far less than with the average advisor. While RIAs suggest that usage will rise in coming years, at present more individual product selection is taking place at the point of sale.



Cracking The Code:
Marketing to Registered Investment Advisors

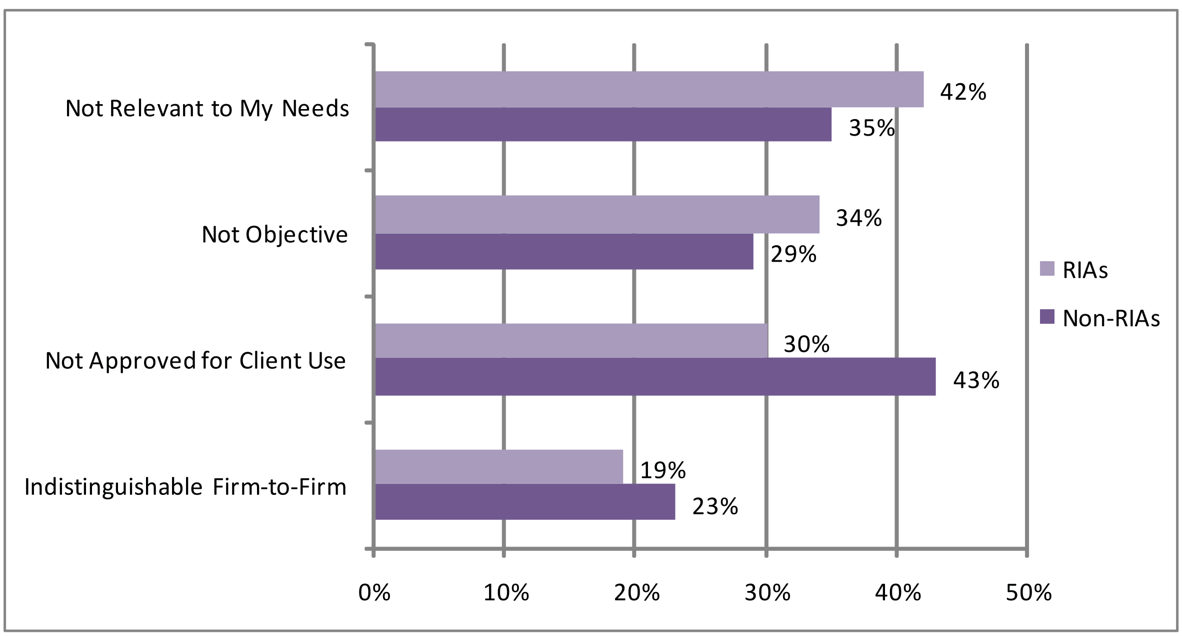
While the potential of the RIA segment appears clear, how best to market those advisors is far from resolved. From uncertainty over the role of the wholesaler and coverage models, to new due diligence demands and appropriate sales support, RIA marketing remains a work in progress.

When asked to evaluate investment management marketing efforts, RIAs expressed a lack of support. In fact, 28% suggest that most of the marketing is a waste of time.

> *"Where's the beef?" said one RIA. "Any communication they send out should be evaluated for value. Otherwise, scrap it."*

As you can see in the chart below, these low marks are primarily attributable to a perceived shortcoming in relevance. That was followed by a lack of objectivity, little client approved support, and a lack of differentiation.

RIAs Biggest Complaints About Asset Managers' Communications



The lack of relevance claim, which was mentioned by 42% of respondents, suggests that investment managers are out of step with the needs of RIAs, either in style or substance. Winning over these advisors will require that investment managers and their marketers make a concerted effort to understand and monitor the channel.

Responding to a perceived lack of objectivity, one RIA suggested that, "Most info from investment managers is propaganda. Real objective analysis is rare and valuable." Another commented that marketing from investment managers offered, "No balance."

Lack of approval for client use and a lack of differentiation were two other factors driving the negative perception of marketing. While the lack of client-approved support was significant for RIAs, the response of non-RIAs is also worth noting, where it stood as the single biggest complaint about investment manager communication.

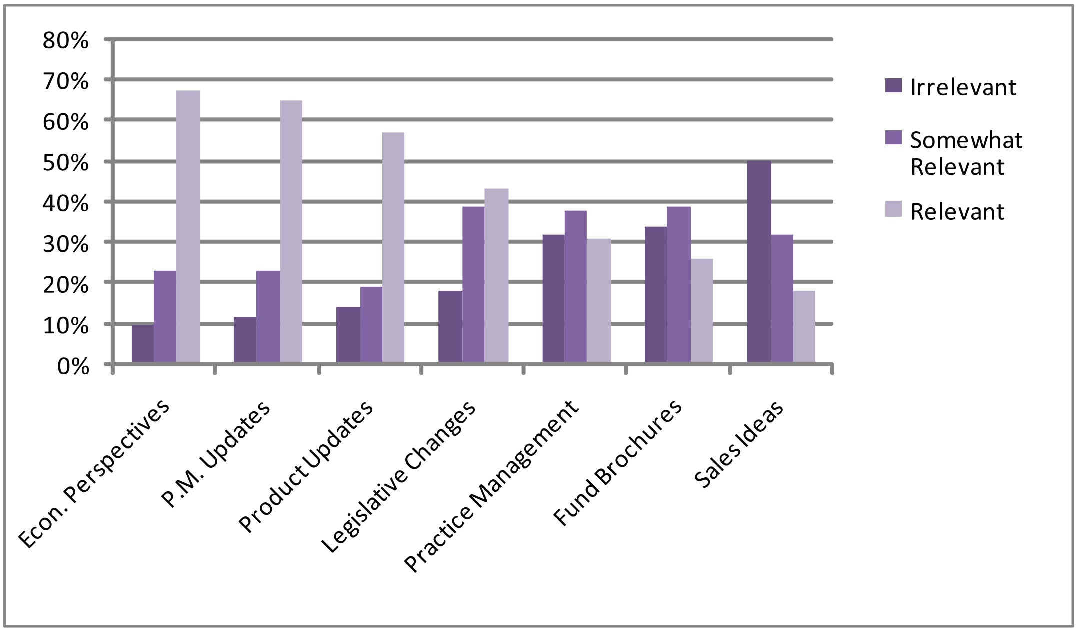
> *"Many fund communications look like they were prepared by the same people."*

RIAs value Insight They Can't Get Elsewhere

Absent the connection to a large broker/dealer parent and the volumes of insight and the support that this relationship typically brings, RIAs are highly dependent on external providers to shape and challenge their thinking.

As you can see in the following chart, RIAs most highly prize investing perspectives and insights. On the other hand, they find little if any relevance in sales ideas, fund brochures and practice-based value added programs.

RIAs' Need External Support; Value Insight and Perspective over Brochures



The Ins and Outs of RIA Marketing

What's In	What's Out
Economic perspectives	Sales ideas
Investing Insights	Practice Management Pieces
Legislative updates	Fund Brochures

RIA Marketing: Who Does It Best?

When asked to identify the firms that were doing the best job of marketing to them, RIAs noted those in the following table. While each received high marks for the relevance and timeliness of their communication, advisors also noted particular firm-specific attributes as well. We believe that these attributes represent core strengths at each firm (As you'll recall, RIAs noted a lack of differentiation as a complaint of investment managers) and provide direction for aspiring competitors.

Who Does It Best? Five Firms that Topped the List

Firm (In Order)	Unique Strength
1. American Funds	**Simplicity** in client communication *"American Funds material is simple to go over with clients."*
2. PIMCO	**Comprehensiveness** *"Bill Gross' commentary is well written and thought provoking."*
3. Vanguard	**Objectivity** *"I really appreciate Vanguard's objective approach."*
4. Fidelity	**Quality and accuracy** of analysis *"Fidelity always provides quality analysis and insight."*
5. Dimensional Fund Advisors	**Academic-based** and level-headed approach *"DFA's education materials are based sound principles."*

Source: 2009 Morningstar/SwanDog Online Survey of RIAs

TOP FIVE PARTNERS FOR DIFFICULT TIMES

When SwanDog published its whitepaper The World Has Changed (Part 1) last October, it called for "substantive improvements in marketing communication and response" in targeting financial advisors during difficult times. This included adoption of a "newsroom" mentality toward content development and delivery that leaned on increased frequency and honest dialogue.

Those firms that heeded the underpinning of that advice—increased communication-- received the highest marks. While the investment managers represented on the list are also among the most utilized, it's clear that these companies used the opportunity provided by difficult markets to further build loyalty among their distribution base.

"Historical performance analysis, and practical ways of dealing with the crisis are welcome."

Firm (In Order)	Initiatives of Note
1. PIMCO	**Regular updates on policy initiatives,** expected outcomes and possible downfalls, backed by frequent conference calls.
2. Fidelity	Timely insight on market events and their meaning. Frequent communications.
3. American Funds	**Great client friendly information** on market volatility. Very timely information.
4. Dimensional Fund Advisors	Good research on market in **historical perspective.** Video and on-line presentation on this topic were particularly valuable.
5. Oppenheimer	**Seminar program** backed by timely visits and communication.

Source: 2009 Morningstar/SwanDog Online Survey of RIAs

"Most of the rest is the same old 'buy-and-hold' pap I've seen during every downturn the last 30 years."

RIAs: Self Sufficient Information Seekers

As noted earlier, without benefit of a natural peer group or regular firm communication, RIAs have found other ways to access the resources they need—demonstrating a high degree of self sufficiency. These "information seekers," as we see them, provide insights that investment managers should look to as they develop marketing efforts for RIAs.

Based on our research, we've learned that RIAs:

- Are more apt to view emails.
- Spend more time, more frequently, on-line.
- Are less likely than non-RIAs to visit asset manager websites. Perhaps a nod to their belief that investment manager communication lacks objectivity.
- Don't see great value in sales calls, whether in-person or via telephone.

RIAs Read Emails

As investment managers look for ways to economize in their relationship building and communication efforts, email and other electronic methods of distribution afford one solution. Among respondents in the table below, 69% suggest they read all or part of the emails they receive from investment managers, with only 26% reading less than half or ignoring them altogether. RIAs also suggest they do look for ideas in materials they receive from investment managers they are not currently doing business with. Finally, as you'll see below, RIAs prefer email to phones calls, wholesaler visits, and even web access.

Read Email From Asset Managers	RIAs
Firm Restricted	2%
Never	1%
Less Than Half	25%
Most	58%
All	11%

"Almost all printed media gets trashed. Emails get read or glanced at before getting deleted at least. Sometimes a topic is eye catching and I'll read it even if I don't do business with the fund."

As investment managers (and others) buy more lists and start to overload on-line mailboxes, readership is likely to decline, ultimately limited only to those firms that have an existing relationship with the advisor.

The Reasons That RIAs Don't Read Your Email	
Too Many	37%
Don't Use Their Products	33%
Not Relevant	28%
Not Interested	32%

It's imperative that firms apply traditional direct marketing philosophies to their email campaigns in order to break through. This includes developing a subject line that quickly grabs the advisor's attention and content that is both relevant and additive (not another sales pitch).

Use of Internet in Business

Given their expressed need for timely updates on investment products, it's no surprise that information seeking RIAs gravitate to the web. From fresh investment perspectives to peer- and customer-based social networking, RIAs are far more web-savvy than non-RIAs. As you can see below, 72% of RIAs go on-line daily versus 63% of non-RIAs. This opportunity for engagement offers investment managers creative new opportunities to mine.

Use of Internet in Business:	RIAs	Non-RIAs
Use to Seek Info Daily	72%	63%
Great for Sharing Ideas	45%	35%
Have Own Website	40%	34%
Use Email Only	6%	10%
Firm Limits Access	1%	6%

While RIA use of investment manager websites is meaningful, it is less than that of non-RIAs. We believe this is due to RIAs greater use of other online resources as well as their belief that investment manager communication lacks "objectivity."

RIA Use of Investment Manager Websites

Use of Asset Managers' Websites	RIAs	Non-RIAs
Never	7%	7%
Few Times a Month	56%	67%
Weekly	22%	36%

Reasons for Visiting AM Websites		
Product Performance	74%	75%
Portfolio Manager Commentary	66%	50%
Product Information	55%	54%
Material For Clients	46%	57%
General Information	34%	34%
Sales Ideas	16%	37%

Marketing Distribution to RIAs: Email or Traditional Marketing Model?

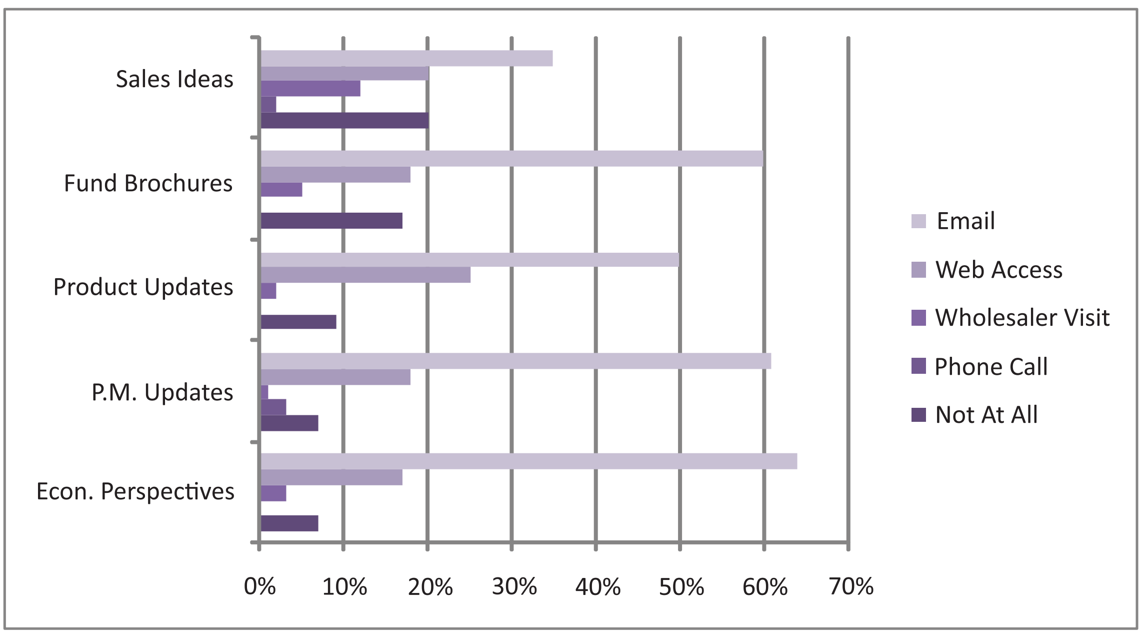
In the following chart, RIAs identified how they wanted to receive communication from investment managers. As you can see, respondents claimed a preference for email and web access over personal contact.

We think that's only one side of the story.

We believe these findings emphasize the larger problem for investment managers—that the existing marketing model is built off the retail distribution chassis and fails to meet the institutional demands of the RIA channel.

As such, marketers and distribution heads need to define a unique structure that focuses as much to institutional and retirement plan efforts as it does to retail. Only then will RIAs begin to see the relevance in marketing efforts.

How RIAs Prefer to be Communicated With



CONCLUSION

The growth of RIA channel presents asset managers with a tremendous opportunity, though it will not be for every firm and will stretch many beyond their comfort zones and infrastructure.

As well, we believe the following:

- In order to succeed, firms will need to take steps to overcome perceptions that their marketing is out of step with the needs of the RIA. This will require greater awareness of the RIA client and their needs, and more time in the field.
- It is essential to find and exploit more efficient ways of cultivating relationships, from better application of CRM systems to and social and digital marketing where low cost and high reach can augment the sales force. The lessons learned from these efforts will serve to reduce cost of sale through traditional channels.
- Firms will need to develop a distribution model that bridges institutional quality message with retail breadth of distribution.

Methodology

The study is primarily a product of 300 responses to an on-line survey of financial advisors. In addition, the study is supported by a series of qualitative interviews with advisors, and investment product providers, combined with the authors 25+ years of experience in the financial industry.

About Morningstar Inc. | Financial Communications Business

The Financial Communications Business at Morningstar helps institutions develop and enhance their marketing campaigns with licensed Morningstar images, content, and statistics. We provide a vast library of content to help spark meaningful client discussions and support existing initiatives. Broker/dealers, banks, asset managers, and other institutions work with us to power their sales and marketing efforts with hundreds of personalized market prints, presentations, charts, articles, reprints, and Sales Ideas. We can provide customized images and research for a firm's unique objectives, helping companies grow their businesses, separate themselves from their competitors, and communicate more effectively with their clients and prospects.

About SwanDog Strategic Marketing, LLC

SwanDog is a strategic consulting and marketing firm founded by investment industry executive Dave Swanson. The firm partners with companies to developer their competitive advantage in the marketplace, by:

- Unlocking the strategic potential of their marketing organizations.
- Developing products and programs their customers find meaningful.
- Build sustainable differentiation through branding efforts.

SwanDog exclusively serves the investment management and financial industry.