

# Highest-Performing Firms in Terms of Loyalty and Retention Focus on Both Highly Satisfied Investors and Advisors



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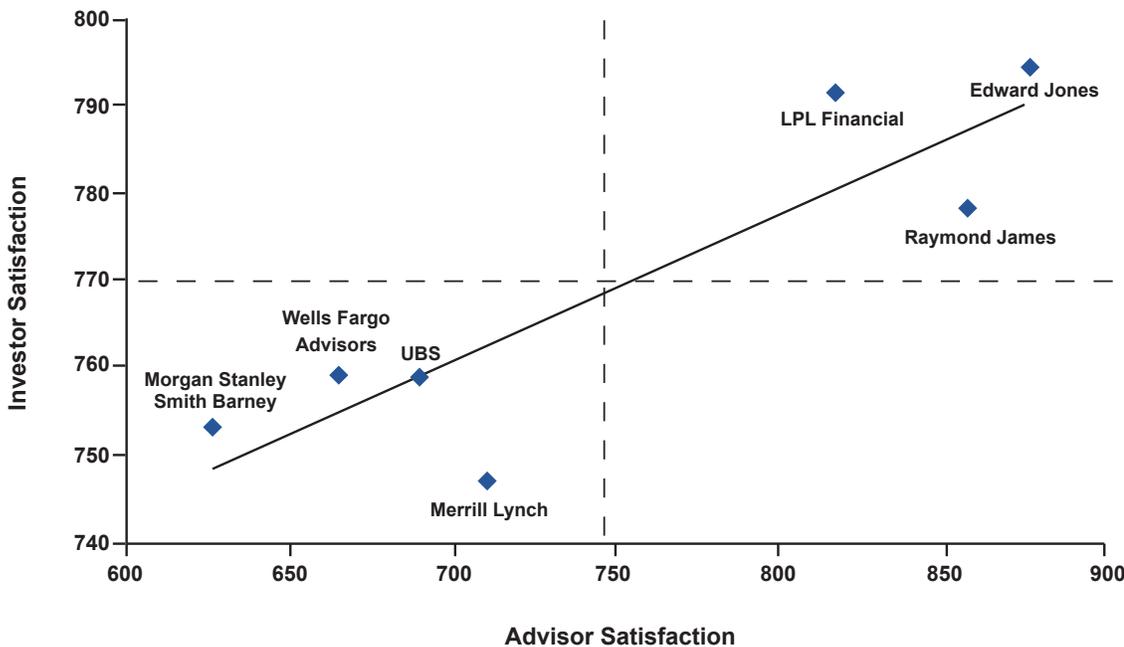
US Investment Services Practice



Historically, the battle for investors and new-investor acquisition in the investment services industry has been fierce. A finding similar in all J.D. Power and Associates research studies conducted for this industry indicates that optimizing investor satisfaction is paramount to not only retaining current investors, but also acquiring new investors.

It is equally important to optimize satisfaction among financial advisors and retain them, given that in many instances investor loyalties lay first with their advisor and second with their investment firm. In fact, when an advisor leaves their firm, they more often than not take a large majority of their clients with them, hitting the firm with a double expense—the costs associated with training and recruiting a replacement, as well as a substantial loss in assets under management. It is therefore critical that investment firms focus on best practices that provide advisors with tools and information to effectively manage their client portfolios as well as achieve operational excellence that keeps advisors in front of their clients and out of the back room. Wealth management firms have the unique challenge of satisfying both their end investor clients and their financial advisors. It is not a coincidence that the firms that perform well from a client investor satisfaction standpoint also perform well in advisor satisfaction.

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Based on a 1,000-point scale  
 Source: J.D. Power and Associates 2010 Full Service Investor Satisfaction Study<sup>SM</sup>  
 J.D. Power and Associates 2010 Financial Advisor Satisfaction Study<sup>SM</sup>

**Figure 1**

In many respects, these two constituencies are inter-related. Ultimately, financial advisors want to be freed from administrative tasks to spend more time with their investor clients. They also want to be provided with the tools and resources necessary to help their investor clients reach their financial goals.

This white paper highlights J.D. Power and Associates wealth management research from both the investor client and advisor perspective and highlights best practices in optimizing satisfaction from both important perspectives. Investor client insights are drawn from the *J.D. Power and Associates Full Service Investor Satisfaction Study*,<sup>SM</sup> 2010-2011 and advisor insights from the *J.D. Power and Associates 2010 Financial Advisor Satisfaction Study*<sup>SM</sup> (next publication is 2012).

## Best Practices in Optimizing Client Satisfaction

In order for firms to understand what is important to financial advisors and provide them with the appropriate tools to conduct their business, they must first understand what investor clients expect from their advisor, as well as understand what comprises the optimum investor experience. The optimum investor experience is based on the Key Performance Indicators (KPIs) or best practices that have the most significant impact on satisfaction.<sup>1</sup> KPIs cover all aspects of the investor relationship and provide firms a checklist with which to optimize the investor experience.

Nine KPIs are identified in the *2011 Full Service Investor Satisfaction Study*. In the following chart, these nine KPIs have been segmented into three priority levels, based on those with the highest potential to impact the largest number of investors: highest potential (\*\*\*) ; moderate potential (\*\*); and lowest potential (\*). Three of these KPIs have the greatest potential for increasing satisfaction: ensuring that advisors contact investors four or more times per year about new products/services or about their accounts in general; explain the fee structure; and clearly communicate reasons for investment performance.

Prioritization of Key Performance Indicators	
	Prioritization Level
Advisor contacted about new products/services/accounts four or more times in past 12 months	***
Advisor explained firm's fee structure	***
Advisor clearly communicated reasons for investment performance	***
Advisor answered questions/returned calls same day	**
Have written financial plan	**
Provides competitive benchmark comparison within account statement	**
Advisor reviewed or developed a strategic plan in past 12 months	**
Experienced no account information errors or problems	*
Advisor discussed and effectively incorporated risk tolerance in past 12 months	*

Source: J.D. Power and Associates 2011 Full Service Investor Satisfaction Study<sup>SM</sup>

**Figure 2**

Given that nearly half of these KPIs are related to the advisor, it may not be feasible for firms to successfully implement all of them in the short term. Consequently, optimal combinations of these KPIs are provided in the following chart, which allow firms to maximize satisfaction until all KPIs can be implemented. To achieve an overall satisfaction score above industry average (772 on a 1,000-point scale), a firm would need to meet three of the seven KPIs listed below. The three that would yield the highest satisfaction are: explain fee structure; clearly communicate reasons for investment performance; and answer questions/return calls the same day. The chart also shows the optimal combinations of KPIs by the number needed to meet, as well as related loyalty metrics.

<sup>1</sup> KPIs establish the relationship between the subjective impressions of the advisor that impact index scores and the objective metrics that are behavior-based and actionable, and which firms may integrate into their performance-improvement initiatives.

## Investment Advisor-Related KPI Optimal Combinations

	Meet 7	Meet 6	Meet 5	Meet 4	Meet 3	Meet 2	Meet 1
Advisor contacted about new products/services/accounts four or more times in past 12 months	✓	✓		✓			
Advisor explained firm's fee structure	✓	✓	✓	✓	✓		
Advisor clearly communicated reasons for investment performance	✓	✓	✓	✓	✓	✓	
Advisor answered questions/returned calls same day	✓	✓	✓	✓	✓	✓	✓
Have written financial plan	✓						
Advisor reviewed or developed a strategic plan in past 12 months	✓	✓	✓				
Advisor discussed and effectively incorporated risk tolerance in past 12 months	✓	✓	✓				
<b>Overall Satisfaction Index</b>	<b>869</b>	<b>855</b>	<b>820</b>	<b>828</b>	<b>787</b>	<b>739</b>	<b>631</b>
% Definitely will not switch firms	71%	68%	53%	54%	48%	30%	26%
% Definitely will recommend firm	67%	55%	46%	34%	38%	21%	11%
% Definitely will recommend advisor/team	71%	61%	44%	46%	33%	24%	13%
% Feel loyal to firm (strongly agree)	64%	56%	42%	47%	36%	17%	15%
% Committed to firm (definitely agree)	56%	52%	35%	37%	31%	13%	14%

Source: J.D. Power and Associates 2011 Full Service Investor Satisfaction Study<sup>SM</sup>

**Figure 3**

High levels of satisfaction translate into higher investor retention and loyalty rates. Regardless of asset level, there is a strong and very clear relationship between high levels of investor satisfaction and loyalty and commitment to their firm—not only is loyalty behavior much higher, but also the stated intent to invest more money with the primary firm is higher.

## Best Practices in Advisor Satisfaction

Since 2007, J.D. Power and Associates has measured advisor satisfaction to provide firms with valuable insights on their relative performance against key competitors and to understand how they may improve satisfaction and retention. Similar to the *2011 Full Service Investor Satisfaction Study*, the *2010 Financial Advisor Satisfaction Study* identifies KPIs or best practices for advisor satisfaction.

As noted earlier, KPIs establish the relationship between the subjective impressions of the advisor that impact index scores and the objective metrics that are behavior-based and actionable, and which firms may integrate into their performance-improvement initiatives. The 13 Employee Advisor and 11 Independent Advisor KPIs included in this study help firms identify where to focus advisor satisfaction improvements in every step of the relationship.

The following is a summary of these KPIs.

Employee Advisor KPIs	Independent Advisor KPIs
<ul style="list-style-type: none"> <li>• Completely integrated software programs</li> <li>• No changes to the payout rules in the past 12 months</li> <li>• Most recent problem, question, or change resolved</li> <li>• Software programs aligned with daily workflow processes</li> <li>• Firm sponsored two or more employee social events in past 12 months</li> <li>• No problems experienced during the past 12 months</li> <li>• Firm offers a mentoring program</li> <li>• Firm offers all desired product offerings</li> <li>• Firm provides dedicated compliance support</li> <li>• Firm has a formal issue-resolution process</li> <li>• Firm provides assistance in determining the proper product/portfolio allocation for clients</li> <li>• Same-day resolution for recent contact to IT support</li> <li>• Same-day contact from compliance support</li> </ul>	<ul style="list-style-type: none"> <li>• Most recent problem, question, or change resolved</li> <li>• No problems experienced in past 12 months</li> <li>• Software programs aligned with daily workflow processes</li> <li>• Firm offers all desired product offerings</li> <li>• Same-day contact resolution</li> <li>• Completely integrated software programs</li> <li>• 15% or less of a typical week spent on compliance-related tasks (e.g., paperwork)</li> <li>• Same-day resolution of most recent compliance inquiry</li> <li>• No changes to the payout rules within the past 12 months</li> <li>• Firm provides assistance in determining proper product/portfolio allocation for clients</li> <li>• Firm offers a mentoring program</li> </ul>

The unique dynamic in the full service investing industry is that client loyalty often falls more closely to the financial advisor, as opposed to the firm. As noted earlier, when an advisor leaves their firm, they more often than not take a large majority of their clients with them, resulting in two types of expense to the firm: costs associated with training and recruitment as well as a substantial loss in assets under management (AUM).

	Employee		Independent	
	Overall Satisfaction 700+	Overall Satisfaction <700	Overall Satisfaction 700+	Overall Satisfaction <700
% Definitely/Probably will not be with firm in next 12 months	1%	21%	1%	15%
Average total AUM	\$87,580,659	\$77,847,229	\$30,807,733	\$27,224,092
Average total production	\$400,000	\$400,000	\$150,000	\$140,000
Average % of clients who leave with FA	53%		50%	
Net loss in AUM per 1,000 advisors	\$464,177,493	\$8,664,396,588	\$154,038,665	\$2,041,806,900
Net loss in production per 1,000 advisors	\$212,000	\$4,452,000	\$75,000	\$1,050,000

Source: J.D. Power and Associates 2010 Financial Advisor Satisfaction Study<sup>SM</sup>

**Figure 4**

With key best practices in mind, a summary of the top-performing firms in the 2010 Financial Advisor Satisfaction study follows.

## Profile of the Highest Performers in Advisor Satisfaction

### Edward Jones

Edward Jones ranks highest in overall satisfaction in the Employee Advisor segment with a score of 876 (on a 1,000-point scale). Edward Jones also achieves the highest index scores in six of the eight factors<sup>2</sup> that comprise the Employee Advisor Satisfaction Index and performs particularly well in the two: Work Environment and Job Duties.

Edward Jones excels in the Work Environment factor, with an index score (933) that is 30 points above the next-closest competitor. While the majority of advisors with Edward Jones work in small branch offices typically staffed by one advisor, the firm provides the highest number of employer-sponsored social events of any firm included in the 2010 study (5.5 vs. 2.6 industry average). Sponsoring two or more social events is a KPI. These events allow advisors to interact with each other to improve morale and team-building across the firm. Additionally, smaller branch offices provide advisors with the ability to work independently and allow for a more entrepreneurial spirit. This is further validated by the fact that Edward Jones rates among the highest performers on the Brand Image attribute for *Entrepreneurial* (5.81 on a 7-point scale), compared with the industry average (3.63).

Job Duties (921) is another key strength for Edward Jones, which is driven by a strong performance in two attributes of this factor (rated on a 10-point scale): *Amount of challenge provided by your work* (9.06) and *Amount of non-client service work you are expected to do (e.g., paperwork, compliance/administrative related)* (8.16). The percentage of time Edward Jones advisors spend on compliance-related tasks (10%) is the lowest in the study, and allows advisors to focus on servicing their current clients and growing new business. Advisors with Edward Jones lead the industry in the percentage of time spent on new business development (27%).

### Raymond James & Associates

Raymond James (857) ranks second in overall satisfaction, 19 points below Edward Jones. Raymond James is the highest performer in both the Compensation and Firm Performance factors, and receives one of the highest Brand Image ratings for *Financially secure* (6.64).

Raymond James leads the industry in offering competitive and attractive compensation packages. Raymond James has above-average percentages of advisors who indicate that they received signing bonuses (35%); product/services discounts (46%); deferred compensation (55%); and equity in broker dealer firm (40%). In addition to attractive incentives and compensation, Raymond James advisors are among the least likely to indicate that the payout rules changed in the previous 12 months (12% vs. 68% industry average)—which is another KPI.

Raymond James also excels in the Firm Performance factor (886), which is attributable to industry-leading ratings for *Hiring and recruiting practices* (8.54 on a 10-point scale) and *Effectiveness of corporate leadership* (9.07). Additionally, Raymond James receives among the highest ratings for the Brand Image attributes *Honest* (6.85 on a 7-point scale) and *Good reputation* (6.74).

### Commonwealth Financial Network

Commonwealth Financial Network ranks highest in overall satisfaction in the Independent Advisor segment with a score of 898, which is 50 index points above the next-closest competitor. Commonwealth achieves the highest scores in each factor<sup>3</sup> and performs particularly well in three: Contact, Firm Performance, and People.

“When an advisor leaves their firm, they more often than not take a large majority of their clients with them, resulting in two types of expense to the firm: costs associated with training and recruitment as well as a substantial loss in assets under management.”

<sup>2</sup> In the Employee Advisor segment, these include (in order of importance): Firm Performance; Compensation; Work Environment; Products/Offerings; Technology; Job Duties; Contact; and People.

<sup>3</sup> In the Independent Advisor segment, these include (in order of importance): Firm Performance; People; Technology; Compensation; Contact; Job Duties; Products for Clients; and Offerings for Advisors.

Commonwealth achieves the highest score in Firm Performance (936). Advisors provide high ratings across all of the attributes that comprise this factor, particularly *Future financial outlook* (9.41 on a 10-point scale). This is further validated by high Brand Image ratings for the *Financially stable attribute* (6.67 on a 7-point scale).

Commonwealth's strong performance in the People factor (911) is based on high ratings in two attributes: *Home office/operational support* (9.28) and *Compliance support* (9.18). Furthermore, 49% of Commonwealth advisors have dedicated administrative support, compared with 40% industry average. In fact, advisors state they only share resources with 1.6 advisors, on average.

A high factor score for Products for Clients (900) is another strength for Commonwealth, which is largely driven by their performance in the *Diversity of products* attribute (9.32). However, only approximately one in 10 advisors indicate that Commonwealth does not offer products that they would like available to their clients.

### **Cambridge Research Advisors**

Cambridge Research Advisors, which ranks second in this segment in this year's study, achieves a score of 848—which is 83 index points above industry average. Cambridge performs particularly well with respect to Firm Performance, Products for Clients, and Job Duties.

Compared with the other Independent Advisor factors, Cambridge performs among the highest in Products for Clients (857), which is driven by high ratings in *Diversity of products* (9.04).

In the Job Duties factor (855), advisors provide particularly high ratings for *Flexibility in choosing products and services to recommend* (9.33) and the highest ratings among all firms for *Amount of challenge provided by your work* (8.64). On average, advisors indicate they spend 12% of their time on compliance work, which is below the industry average of 16%.

A large majority (85%) of Cambridge's advisors state they "definitely will" be working with the firm in the next year. Also, nearly three-fourths of advisors state they "definitely will" recommend Cambridge as a firm to work for to colleagues or other financial advisors.

### **Raymond James Financial Services**

Raymond James Financial Services (845) ranks third in overall satisfaction in this segment. Specifically, Raymond James performs well in three factors: Firm Performance (896), Products for Clients (893), and Offerings for Advisors (860). Raymond James advisors have one of the lowest incidences of problems, with just 34% of advisors indicating they experienced a problem during the previous 12 months, which is 10 percentage points below industry average.

While Raymond James scores similar to both Commonwealth and Cambridge in the Firm Performance and Products for Clients factors, the firm excels with a strong performance in the Offerings for Advisor factor, scoring 139 points above industry average. Raymond James advisors provide the highest ratings for *Usefulness of firm's investment research* (8.87) and 82% of advisors state that Raymond James provides assistance in determining proper product/portfolio allocation for clients.

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