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TD Ameritrade Institutional Survey Finds Bullish RIAs Are Gearing Up for Stronger Growth in 2017

Amid Great Expectations for the Economy and Markets, RIAs Plan to Ramp Up Marketing and Technology Spending

JERSEY CITY, N.J., Jan. 10, 2017 – Independent registered investment advisors ("RIAs") are highly optimistic that their firms will see continued success in 2017, building on strong growth in 2016, and will be flexing their marketing muscles to help make it happen, according to the latest TD Ameritrade Institutional[1] RIA Sentiment Survey.

The survey, was conducted just after Election Day 2016, reveals that bullish RIAs plan to rev up marketing, business development and technology spending as well as implement a number of growth strategies to help attract new clients and sustain long-term expansion.

RIAs said they are upbeat on multiple fronts: nearly seven in 10 are optimistic about the U.S. economy -- the highest level since the survey began in 2009 -- and more than half, 55 percent, feel good about the prospects for the global economy. Likewise, 53 percent expect the U.S. stock market to rise, and an additional 35 percent see the market holding on to its 2016 gains.

Advisors are paying close attention to interest rates and corporate earnings for their impact on client portfolios, but those surveyed also believe that certain market sectors will benefit from changes from inside the Beltway. The majority expects financial, industrial and material companies to see the biggest gains under the new administration.

"These are good days for independent RIAs, yet we can't expect market tides will always rise. RIAs need to deliver a great experience, build firms that are more scalable and make sure they are compensated for all the services they provide," said Tom Nally, president of TD Ameritrade Institutional, provider of brokerage and custody services to more than 5,000 advisors. "By investing in themselves, embracing technology and articulating all the value they deliver, RIAs can increase their firms' chances for sustainable growth."

Growing Firms See Bigger Gains in 2017

Advisor optimism may stem from finishing 2016 on a high note, with strong gains in assets, revenue and clients in the latter half of the year for most firms. Seventy percent had assets grow on average by 17 percent, while 60 percent saw revenues increase by 16 percent on average. Likewise, 56 percent of advisors say new client growth averaged 17 percent.

With the economy seen as having has the biggest impact on growth, four out of five advisors predict their firms' assets will grow further in 2017, and half of these advisors predict firm assets will grow even more than last year.

RIAs also continued to attract clients from other financial services channels. Nearly a third of new clients came from full-commission brokers - the largest source - and self-directed investors were the second-largest source of new clients moving to independent RIAs in 2016.

Investing for the future

Looking ahead, advisors expect their biggest operational spending increases to be in marketing, followed by technology. They rank marketing and social media initiatives among their top strategic priorities this year.

The planned increases make sense given that marketing and advertising are the main ways they plan to attract new business in 2017, including the next generation of potential clients. In terms of technology spending, reinvigorating client-facing tools like websites and social media programs are among the top upgrades planned for 2017.

In 2016, advisors had their biggest increases in spending in technology, followed by legal and compliance. Conversely, most firms report that hiring / human resources and real estate-related expenditures were down from 2015.

Confidence is High Despite Industry Pressures

Though many anticipate 2017 to be another year where industry pressures intensify, most RIAs seem confident they can navigate what lies ahead. In the face of regulation, the emergence of low-cost digital upstarts, or the need to draw up formal succession plans, RIAs expect their firms will continue to thrive. More specifically:

- **Department of Labor (DOL) conflicts of interest rule**. The April 10, 2017, deadline for compliance means increased compliance costs for some RIAs, but the majority says it has been business as usual. Others say the new standards are a growth opportunity.

- **Robo-advisors**. Eighty-two percent of advisors say they have minimal - if any - concerns over robo-advisors as a competitive threat. RIAs say robos cater to a different market and their own growth has largely not been impacted by them.

- **Business continuity plans**. Fifty-seven percent of advisors have business continuity plans finalized, and 31 percent have plans in the works. Eight in 10 are aware of the Securities and Exchange Commission's proposed Rule 206(4)-4 requiring such plans.

“RIAs have been the fastest growing channel in the financial advice marketplace in large part because they offer investors a personalized, client-first approach. At the same time, they have to find ways to navigate the myriad market forces converging on the industry if they want to keep growing,” Nally said. “RIAs can continue to grow by facing challenges head on, whether that means developing a robust retirement plan business, attracting a new generation of clients or embracing new technology to deliver a better digital experience.”

Spotlight on Exchange-Traded Funds

The vast majority of RIAs today use exchange-traded funds (ETFs) in their clients’ portfolios. Compared to other investment vehicles, advisors turn to ETFs for their lower costs, market liquidity and a convenient way to achieve asset-allocation goals.

The survey, though, founds that advisors look first and foremost at the quality of the underlying index when considering which specific ETFs to purchase for clients, followed by the fund's performance track record. Expense ratios and trading costs were of lesser concern. When looking at a fund's track record, advisors should keep in mind that past performance does not predict future results.

Despite the variety of offerings on the market, advisors largely stick to a few types of ETFs to manage client assets. Equity index ETFs are "always" or "sometimes" used by 82 percent of the advisors surveyed, while two thirds say they use industry-sector ETFs.

These categories were trailed by fixed-income index funds, used by 58 percent of advisors, and real estate ETFs, 56 percent. Usage of more esoteric products, such as inverse or leveraged ETFs or funds based on "smart-beta" and other fundamental-weighted indexes, was far less frequent.

Actively managed ETFs, a relatively new asset class, may already be making headway. Among the firms surveyed, 32 percent of advisors sometimes use these ETFs.

Advisors should carefully consider investment objectives, risks, charges and expenses before investing in an ETF for their clients. A prospectus, obtained by calling 866-766-4015, contains this and other important information about an investment company. Read carefully before investing.

About the Survey
The results of TD Ameritrade Institutional 2017 RIA Sentiment Survey are based on a phone survey conducted by MaritzCX on behalf of TD Ameritrade Institutional, a division of TD Ameritrade Inc., of 306 registered investment advisors ("RIAs"), between Nov. 14 and Dec. 5, 2016. Survey participants were asked to share their views on economy, the outlook for their firms and the RIA market overall. Participants may be clients of TD Ameritrade Institutional and other custodians. The margin of error in this survey is ±5.6%.

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[1] TD Ameritrade Institutional is a division of TD Ameritrade, Inc., a brokerage subsidiary of TD Ameritrade Holding Corporation.

Source: TD Ameritrade Holding Corporation