Media Contact:
Joseph A. Giannone
Communications + Public Affairs
W: 201-369-8705
joseph.giannone@tdameritrade.com

Uncertain Times Are Lined with Opportunities for RIAs to Shine, TD Ameritrade Institutional Analysis Reveals

FA Insight Research Reveals Best Advisor Business Practices and Lessons Learned from the 2008 Financial Crisis

JERSEY CITY, N.J. – May 4, 2020 -- It is possible for independent investment advisors to thrive – not just survive – amid turbulent times, new FA Insight[1] data analysis from TD Ameritrade Institutional[2] shows.

According to the data, a commitment by advisors to execute on a few key practices can yield standout results, even during economic cycle lows like those that resulted from the “Great Recession,” which began in December 2007[3].

To help RIAs navigate a way forward through the historic economic and financial disruption resulting from the COVID-19 pandemic, FA Insight looked back at the performance of financial advisory firms during the downturn a decade ago, comparing “Standout” firms – those with above average revenue growth and operating margins -- against their peers.

Here are some key takeaways from that time period:

- **Top performers kept hiring**: Standout firms grew in headcount from a median of seven team members in 2007 to 10 by 2009, whereas other firms reduced headcount slightly.
- **They kept a close eye on expenses and overhead**: For Standouts, median overhead expense margins dropped from 45% to 42% from 2008 to 2009, while other firms saw them increase to 56%, up from 46%. And Standout owners took deep pay cuts, reducing their share of total firm revenue from 31% down to 19%, whereas owner pay at other firms hovered around 25% of total revenue.
- **They continued adding new clients**: From 2008 to 2011, Standout firms saw 11% average annual growth in new clients versus a 0.4% increase seen by other firms.
- **They invested selectively to improve their capacity**: Investments during the Great Recession may have put a damper on productivity for Standouts initially, but these firms were better positioned for growth in the years that followed. In 2011, revenues per revenue generator at Standout firms were 22% greater than in 2008, whereas productivity at other firms fell by 10%.

“By pursuing a disciplined, consistent approach to business management fundamentals, RIAs can do well for themselves in good times or bad,” said Vanessa Oligino, managing director of business performance solutions at TD Ameritrade Institutional. “Our research shows that standout RIA performance is not magic – it’s a matter of planning, perseverance and focus.”

Standing Out in Today's Times

Though no one knows what the future holds, TD Ameritrade Institutional believes it is possible for advisors to control what they can to be well-positioned to grow during and after the current coronavirus pandemic.

In these turbulent times, advisory firms can take steps toward operational excellence by reining in expenses, putting cash aside and keeping their powder dry. This could be accomplished through better use of technology, managing non-revenue employees more efficiently or making adjustments to owner compensation and profit draws, if needed.

But RIAs should also steer clear of making cost-cutting mistakes that can have negative long-term effects. This means holding firm on pricing but making plans to reexamine pricing structure once the economic recovery takes hold. And firms should only consider cutting the base salaries of staff as a last resort.

"Until all other options are meaningfully exhausted, we do not recommend cutting base compensation for staff," said Oligino. "If cuts must take place, RIAs should consider combining them with reduced hours or greater incentive opportunities. Advisors would be well served to maintain staff morale for the long term."

RIAs should also not lose sight of a key fact: clients often hire advisors specifically to guide them through uncertain times and volatile markets. Right now, advisors have a unique opportunity to showcase their value proposition with existing clients. Beyond simply connecting with clients, advisors can examine how their client needs are changing, and whether new approaches, services or talent are needed to help them weather the cycle.

"We want RIAs to appreciate that unprecedented events can present once-in-a-lifetime opportunities for them," said Oligino. "Short-term decisions can have long-term consequences, so make the most of the current opportunity. Advisors can take action now, during these dark days, to strengthen their firms and build for a brighter future."

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About the FA Insight Analysis

For a closer look at best business practices during challenging economic times, FA Insight tracked and compared the revenue growth and operating margins of the same 39 financial advisory firms from 2008-2011. The firms in this group with above average revenue growth during the 2008-2011 period and an above average operating profit margin in 2011 – a third of the group – were considered "Standouts." Standout firms' performance was benchmarked against their peers. FA Insight is a product of TD Ameritrade Institutional, division of TD Ameritrade, Inc.

About TD Ameritrade Institutional

TD Ameritrade Institutional empowers more than 7,000 independent registered investment advisors to transform the lives of their clients. It provides powerful technology and resources that help simplify running a business and let advisors spend more time doing what matters most — serving their clients. Through meaningful innovation, steadfast advocacy and unwavering service, TD Ameritrade Institutional supports RIAs as they build businesses that positively impact their clients and communities. TD Ameritrade Institutional is a division of TD Ameritrade, Inc., member FINRA/SIPC, a brokerage subsidiary of TD Ameritrade Holding Corp.

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TD Ameritrade provides investing services and education to approximately 12 million client accounts totaling approximately $1.2 trillion in assets, and custodial services to more than 7,000 registered investment advisors. We are a leader in U.S. retail trading, executing approximately 2 million daily average revenue trades per day for our clients, nearly one-third of which come from mobile devices. We have a proud history of innovation, dating back to our start in 1975, and today our team of nearly 10,000-strong is committed to carrying it forward. Together, we are leveraging the latest in cutting edge technologies and one-on-one client care to transform lives, and investing, for the better. Learn more by visiting TD Ameritrade's newsroom at www.amtd.com, or read our stories at Fresh Accounts.

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[2] TD Ameritrade Institutional is a division of TD Ameritrade, Inc., a brokerage subsidiary of TD Ameritrade Holding Corporation
[3] US National Bureau of Economic Research, U.S. Business Cycle Expansions and Contractions, records the time period of the Great Recession as December 2007 to June 2009.

Source: TD Ameritrade Holding Corporation

BI#1335719