

# Executive Summary

2010 Advisor Productivity and Profitability Study

For decades LPL Financial has helped thousands of financial advisors build and grow profitable, independent practices, establishing themselves as the premier providers of investment advice in the communities they serve. As part of our continuing commitment to providing the resources, technology, and servicing that today's advisors require to drive practice success, we engaged PricewaterhouseCoopers (PwC) to administer a survey to gain insight on the role broker/dealers play in advisor productivity and profitability.

The 2010 Advisor Productivity and Profitability Study was initiated to help financial advisors determine the benefits of affiliating with an independent broker/dealer. The survey focused on the efficiencies and operating cost savings that advisors gain through their broker/dealer's support infrastructure.

We have highlighted the key findings here. Detailed study results follow this section, including information on survey methodology and findings per topic.

**The 2010 Advisor Productivity and Profitability Study found that:**

- LPL Financial affiliates are more profitable
- LPL Financial affiliates earn more revenue per client
- LPL Financial affiliates are more efficient
- LPL Financial affiliates service larger relationships
- LPL Financial affiliates generate higher recurring revenue suggesting higher valuations
- LPL Financial affiliates leverage the technology of their broker/dealer more and are more likely to state their productivity is impacted by broker/dealer technology

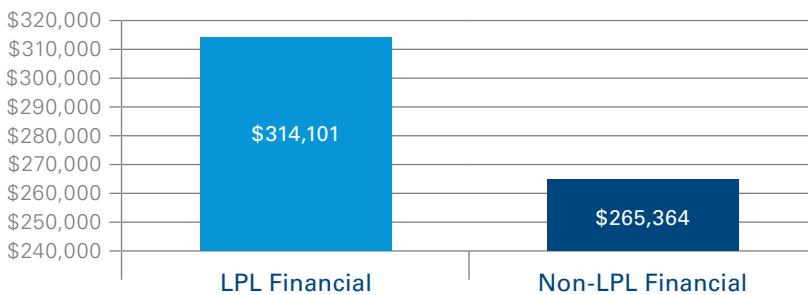
“LPL Financial affiliates were more profitable and more productive relative to their peers, viewing their affiliation with LPL Financial as a key driver in running their business efficiently and profitably.”

## Key Findings

This study finds that among survey participants, LPL Financial advisors exceed their peers in both productivity and profitability.

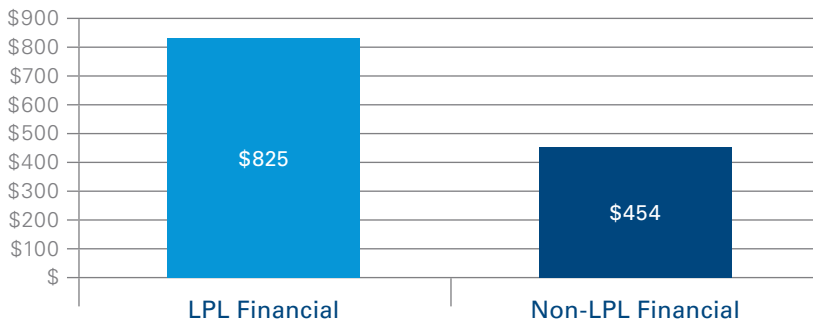
Pretax income per owner for LPL Financial affiliates averaged \$314,101, significantly greater than the average \$265,364 earned by owners of non-affiliates.

### Pretax Net Profit per Owner (adding back owners' draws)



Profit per client is 82% higher for LPL Financial affiliates vs. non-affiliate advisors (\$825 vs. \$454)

### Profit per Client

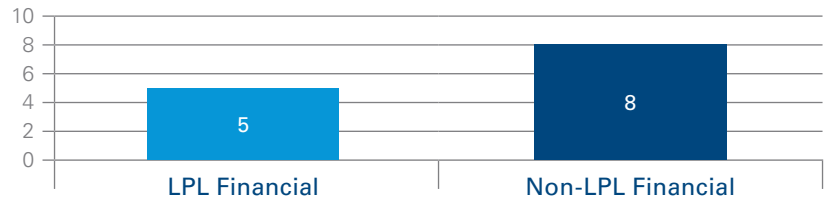


The study found that among LPL Financial advisors and non-LPL Financial affiliated advisors with roughly similar revenue sizes and clients per rep, LPL Financial advisors clearly achieve a greater level of productivity through lower direct expenses and a leaner business model. Despite serving a similar number of clients, LPL Financial affiliates operate with an average of five staff members, while non-affiliates operate with an average of more than eight staff members.

“LPL Financial advisors clearly achieve a greater level of productivity through lower direct expenses and a leaner business model.”

LPL Financial affiliates support a similar number of clients and levels of production with three fewer staff, on average.

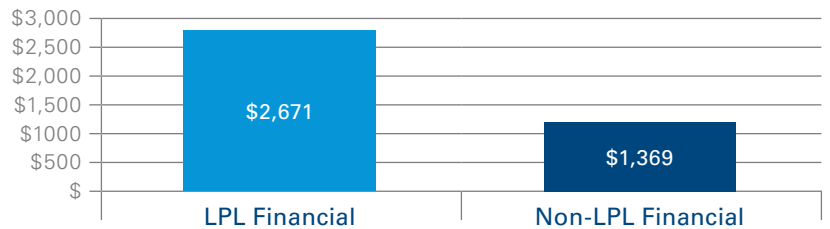
#### Average Number of Staff (total staff-owners)



On a per-client basis, LPL Financial professionals are handling more assets under management (AUM) and generating more revenue and profit than their peer group overall, due to the high reliance LPL Financial affiliates have on LPL Financial's tools, technology, home office support staff responsiveness and the accessibility to top LPL Financial leadership. They are able to leverage LPL Financial's infrastructure to focus on maintaining their client relationships, while outsourcing back office, operational functions to LPL Financial platforms.

Average revenue per client for LPL Financial affiliates is 95% higher vs. non-affiliates (\$2,671 vs. \$1,369)

#### Revenue per Client



The exceptional performance of LPL Financial practices relative to their peers is evidenced in the higher overall profit per owner realized by LPL Financial advisors, particularly across the silo and solo business models. The LPL Financial advisor operates with lower direct expenses and yields significantly higher profits, citing their affiliation with LPL Financial as a factor in their profitability.

Given the double-digit future growth expectations of advisors surveyed, this trend is expected to continue, especially given clear facts confirming the high value affiliates place on their relationship with LPL Financial.

## Revenue

LPL Financial practices earn higher average revenue per client relative to peers, at \$2,672 compared to \$1,369 for non-affiliates. In addition, the study found that LPL Financial affiliates generated higher recurring revenue (asset management fees, securities trails, insurance renewals) at 69%, versus their peer group at 47%. Practices with a higher proportion of recurring revenue typically command higher valuations.

## Profitability

Overall, LPL Financial affiliates are more profitable and operate with fewer staff than non-LPL Financial affiliates. This is indicated by the average profit per owner of \$314,101 for LPL Financial affiliates with an average of five staff members per practice, a profit per owner of \$265,364 for non-affiliates with an average of eight staff members.

## AUM Growth

LPL Financial affiliates service larger relationships on average. Overall, average AUM per client for LPL Financial affiliates was \$294,619, compared to \$212,423 for non-LPL Financial affiliates. Furthermore, LPL Financial affiliates have noticed a growth in their AUM over the past year: The average increase in AUM for affiliates was over \$20 million, or 33%, 24% of which was attributed to performance. Following this trend, LPL Financial affiliates witnessed an increase in the number of clients they served in 2009, up on average by 4%.

## Technology

LPL Financial affiliates value LPL Financial technology, and rely on their technology tools to streamline operational processes. LPL Financial affiliated advisors indicated a higher reliance on LPL Financial provided technology (66%) than non-LPL Financial affiliates (42%). Further, those operating in the industry the longest have an increased reliance on technology supplied by their broker/dealer, indicating younger businesses have a greater tendency to outsource technological support from an independent provider.

“LPL Financial advisors are optimistic regarding their future growth expectations, as over half expect 10–20% growth over the next five years and one quarter expect over 20% growth.”

## Broker/Dealer Loyalty

Most LPL Financial advisors expressed high levels of advocacy regarding the LPL Financial brand with 84% of LPL Financial affiliates having recommended LPL Financial to peers within the last year, relative to only 65% of non-affiliates recommending their current broker-dealer.

For LPL Financial advisors, service delivery was ranked as most important in driving advisor satisfaction. Higher revenue businesses rated their broker-dealer as performing better relative to lower revenue businesses, especially those in the LPL Financial Service360 pilot program. In general, LPL Financial affiliates expressed a high degree of satisfaction with how the LPL Financial payout rate, technology offerings and responsiveness of home office support staff contributed to their performance.

Advisors interviewed indicated a key differentiator between LPL Financial and other broker/dealers is the fact that top LPL Financial leadership is accessible and open to communication.

## Experience

The LPL Financial advisor is more experienced than peers, with over half of LPL Financial affiliates reporting more than 20 years industry experience. Among the LPL Financial advisors surveyed, only 6% reported 5–10 years industry experience. That percentage more than doubled for non-affiliated advisor participants, with 15% indicating they had 5–10 years industry experience.

## Training

Across the industry, training opportunities appear to be used primarily for selected key initiatives, which appears to be linked to its perceived value by the business. Training is viewed as an ad-hoc opportunity that moderately increases advisor productivity and profitability. A common trend observed during interviews was that many LPL Financial advisors look to conferences as an excellent opportunity for both training and networking.

## **Background & Methodology**

LPL Financial engaged PricewaterhouseCoopers (PwC) to assist in the survey design, administration and analysis. Fieldwork was performed from February 12 through April 23, 2010. The survey was conducted using an online methodology supplemented by one-on-one interviews.

## **Survey Population**

The survey was conducted on LPL Financial affiliated advisors (LPL Financial affiliates) who maintained their own Office of Supervisory Jurisdiction (OSJ) and generated annual gross revenue (GDC) of \$200,000 or more; and non-LPL Financial advisors (non-affiliates) meeting similar criteria in terms of size, experience with their broker/dealer, and OSJ qualifications. A total of 196 LPL Financial affiliates and 91 non-LPL Financial advisors who were affiliated with their broker/dealer for two years or more participated in the survey. Nine LPL Financial advisors participated in supplemental one-on-one interviews.

Among the survey respondents, a majority of the LPL Financial affiliates operate a solo business model, in which one owner or advisor is assisted by administrative staff. In contrast, a majority of the non-affiliated advisor participants operate an ensemble business model, where multiple advisors combine to brand as one entity.

## **Key Financial Metrics**

The financial metrics provided throughout this document were calculated based on the most complete set of data available from each respondent, using the arithmetic mean of each valid response in the questionnaire. As values indicated hereafter are based on arithmetic mean values excluding outliers, rather than calculated values (unless otherwise noted), this sometimes leads to “bottom line” figures that differ from the actual calculation of the preceding line items. The approach in favoring the arithmetic mean yields the most accurate representation of the survey responses considering the highest number of responses for each question, a common methodology in survey research.

PricewaterhouseCoopers, LLP, a Delaware limited liability partnership, hereinafter referred to as PwC, was commissioned by LPL Financial to undertake a proprietary internal survey and analysis of certain data and information regarding LPL Financial and its affiliates. This survey represents data and information identified and compiled by LPL Financial together with other publicly available information. PwC was not involved in the preparation or identification of the underlying information and does not have an opinion in regard to the accuracy of or validity of the underlying data, or its appropriateness as a sample of industry behavior or any other characteristic. Our work was limited to the administration and conduct of the survey as an independent professional service which was performed in accordance with the Standards for Consulting Services established by the American Institute of Certified Public Accountants (AICPA), and accordingly, PwC is not providing any opinion, attestation or other form of assurance with respect to any of our work. Further, PwC has not verified or audited any information provided to us by LPL Financial or any other third party or source.

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