Cerulli Quantitative Update

Retail Investor Advice Relationships 2012:

Meeting Investor Needs Post-Crisis

CERULLI ASSOCIATES
Global Analytics

Overview

This report, in its third iteration, provides insight into the relationship between financial providers and retail investors. It covers the provider-client relationship from end to end, starting with client acquisition, progressing through advice delivery, investment management, and pricing and client retention strategies, among other topics. In addition, the report includes a sizing of the retail investor marketplace by channel and product, as well as investor sentiment survey findings, to help firms identify client acquisition and product distribution opportunities. This report is the outcome of a partnership between Cerulli Associates and Phoenix Marketing International.

Data included in this report is compiled from a Global Wealth Monitor proprietary survey in partnership with Phoenix Marketing.

Key Reasons to Buy This Report:

- Understand the addressable market of investors, including channel sizing and product sizing
- Pinpoint sources of client satisfaction and dissatisfaction with their providers
- Determine trends in client relationships to create service strategies and marketing strategies for advisors/representatives
- Track investor sentiment about topics such as risk tolerance, wallet share, fees, trust in providers and advisors, and retirement
- Create thoughtful client segmentation and understand which types of firms compete for which clients
- Analyze how advisors use digital communication (social media, websites) to interact with clients
- Review how firms create and communicate value propositions

Answer These and Other Critical Questions:

1. Which channels control a growing share of retail client assets?
2. What are the current drivers of client satisfaction?
3. How many relationships do clients maintain and what type (advisor, discount B/D)?
4. What percentage of assets do clients keep with their providers and how has share of wallet changed over the past years?
5. What are the advice needs of clients in pre-retirement, at retirement, and post-retirement?
6. What are clients' reactions to fees, and how should firms communicate these costs to clients?

Research Included with Subscription

A subscription to this report remains active through 12/10/2013 and includes online access to the following related Cerulli research:

- Two years of Cerulli Quantitative Update: Retail Investor Provider Relationships
- Navigating the Emerging Affluent Marketplace 2006
- Retirement Income: Positioning for Success 2005
- Wealth Transfer: Product and Advice Solutions 2004
- Mass Market Advice: Challenges and Opportunities 2004
- Funding Retirement Income: Impact on Managers and Distributors 2002

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EXHIBIT 10.12

Households Needing More Advice by Investable Asset Range, 2012

Sources: Phoenix Marketing International, Cerulli Associates

	Household Investable Assets					
I Need More Investment Advice Than I Have in the Past	**≤$100K**	**>$100K-$500K**	**>$500K-$2m**	**>$2m-$5m**	**>$5m**	**All Households**
Strongly agree	3%	5%	7%	9%	13%	5%
Agree	22%	30%	29%	30%	38%	27%
Neither disagree nor agree	39%	31%	31%	30%	27%	34%
Disagree	23%	23%	23%	24%	16%	22%
Strongly disagree	13%	11%	10%	7%	6%	12%
Total agree and strongly agree	**26%**	**35%**	**36%**	**39%**	**51%**	**32%**

- Overall, 32% of investor households report that they need more investment advice than they had previously, while 34% do not agree that they need more advice. A desire for more advice is highly correlated with investable assets, with 51% of households with more than $5 million in investable assets reporting increased advice needs.

- 10.13.b. On an age-group basis, younger investors were more likely to indicate elevated needs for financial advice.

Key Implication: An important part of understanding the advice process is realizing that many investors consider it a temporary need. Rather than engaging in an ongoing comprehensive financial planning engagement, many investors would prefer the opportunity to have periodic check-ins with advice providers regarding their overall financial position. In many cases, especially for younger households, these sessions would have little focus on long-term accumulation portfolios as these investors are more interested in saving for short to intermediate goals such as home ownership or funding a wedding. Providers interested in establishing trust relationships with younger investors should consider being able to provide basic, but personalized, financial planning guidance for these clients. Simply having a representative qualified to speak for few minutes on the choices a client faces with financial topics such as life insurance or mortgages could go a long way toward strengthening client relationships.

EXHIBIT 11.09

Investor-Reported Fee Structure by Investors' Perception of Primary Provider Responsibility, 2011

Sources: Phoenix Marketing International, Cerulli Associates

Analyst Note: Respondents were given the following options: my advisor/representative must always act in my best interest (fiduciary); my advisor/representative may recommend products that put my advisor's interests or my advisor's firm's interests ahead of my own (suitability); sometimes my advisor must only act in my best interest, however at other times my advisor/representative may recommend products that put my advisor's interest or my advisor's firm's interests ahead of my own (fiduciary/suitability); I do not know what is required of my advisor/representative (not sure).

	Investor-Reported Fee Structure					
Investors' Perception of Primary Advisor's Responsibility	**Commission-Only**	**Fee-Only**	**Fee-and-Commission Mix**	**Complimentary/Do Not Pay for Services**	**Not Sure**	**All Households**
Fiduciary	65%	77%	62%	70%	54%	66%
Suitability	8%	10%	18%	8%	3%	9%
Fiduciary/suitability based on transaction/product	17%	4%	16%	3%	8%	10%
Not sure	10%	9%	5%	19%	36%	15%

- Nearly two-thirds of investors who identify having a commission-only relationship with their provider also indicate that the provider is obligated to operate under a fiduciary standard.

Key Implication: Households in commission relationships largely believe that their advisor must put their best interests first, despite signing off on applications which generally include a warning such as this: "Our interests may not always be the same as yours. Please ask us questions to make sure you understand your rights and our obligations to you, including the extent of our obligations to disclose conflicts of interest and to act in your best interest." When acting under the suitability standard, the advisor's initial responsibility is as an agent to his employer; recommendations to clients must be appropriate, but not necessarily the best possible solution the advisor can find. Likewise, when considering conflicts of interest, the investor must be treated "fairly," but the advisor is not obligated to put the interest of the client ahead of his firm as required under a fiduciary standard. In Cerulli's opinion, trying to cling to business models that allow for ongoing conflicts of interest holds the industry back from making true advances that would ultimately rebuild investor trust and advance the industry overall. Firms that continue to operate solely on a suitability standard basis must be ready to answer client questions as to how they ensure clients are being served, and potentially lose clients if the public comprehension spreads about how the various standards impact client relationships.

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