TRUST COMPANY OF AMERICA

SMALL ACCOUNTS, BIG OPPORTUNITIES

The trends and technologies that are transforming small account management for RIAs

It's no secret that many RIAs today struggle to efficiently manage small accounts (although there's no real definition, many RIAs refer to accounts under $100K as "small accounts"). However, it doesn't have to be a struggle moving forward. This report explains how new technologies and the right processes can make small accounts not only manageable — but also profitable.

THE STORY UP UNTIL NOW

Few RIAs start their business to manage small accounts, but almost all RIAs end up having at least a handful of small accounts they need to manage at any given time. As an RIA, you've probably had this happen to you for many reasons — such as these two:

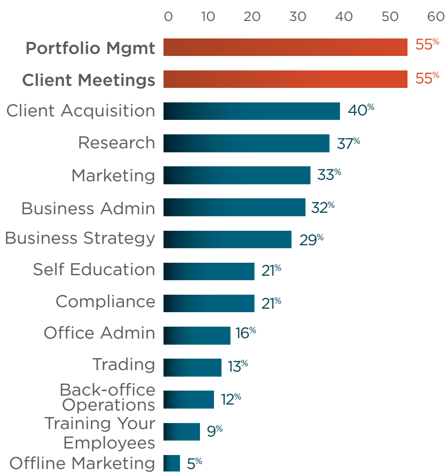
- You might have agreed to manage smaller accounts when you first started out, and those legacy accounts have remained even after you increased your minimums.
- You have small accounts that are attached to larger accounts, since you can't say "no" when a big client asks you to manage a small amount of money for a loved one.

19%

of fee-based financial advisors average less than **$500k** in client assets under management[1]

It happens to every RIA — whether they like it or not. Historically, RIAs have been concerned about actively managing too many small accounts, for any of the following reasons:

ADVISORS' MOST TIME-CONSUMING ACTIVITIES*[2]



**Select up to five tasks*

- Small accounts require the same amount of attention as large accounts (if not more), but if an RIA charges based on a percentage of assets, he/she might be doing the same amount of work for exponentially less revenue.
- Trading fees and operational inefficiencies could make it almost entirely non-profitable for an RIA to manage small accounts.
- Time spent managing small accounts could take away from the time spent on larger accounts. After all, most RIAs say portfolio management and client meetings take up the majority of their time (see chart).

That's why in the past, many RIAs have struggled to provide small account owners with the same quality of service as large account owners. With the amount of time RIAs spend managing portfolios, it's simply unrealistic to apply their best thinking to each and every account, regardless of its size — without the right technology, that is.

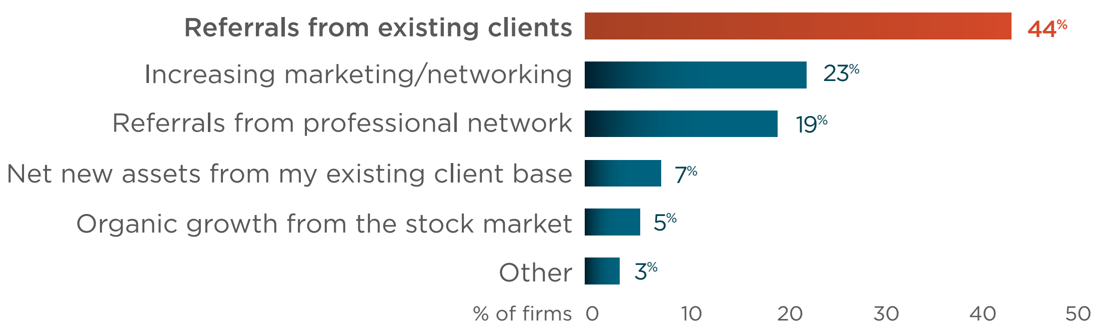
THE PROBLEM WITH IGNORING SMALL ACCOUNTS

If you're not applying your best thinking to each and every account, you're underserving some of your clients. And this can come back to haunt you. For one, you never know who's going to hit it big. And if that seems like an unlikely scenario that's not worth worrying about, here's another compelling reason: You never know who a small account owner could refer (or not refer). And you can't underestimate how important that is:

- The fastest-growing advisor firms generate an average of 36% more new clients from referrals than all other firms.[2]
- Referrals from existing clients, whether passively or actively sought-after, are the most effective marketing method for RIAs today.[3]
- 44% of advisors expect referrals from existing clients to be their top driver of growth in the next 5 years, more than any other factor (see chart on page 3).[3]

> People are smart enough to know they've been treated poorly. You don't have to be wealthy to recognize good service.

KEY DRIVERS OF RIA GROWTH IN THE NEXT FIVE YEARS (2013)[3]



THE FINANCIAL OPPORTUNITY

You might think small accounts are a necessary evil, but guess what? They're not all that evil. There are many more small investors out there than large ones, and far fewer RIAs willing to manage their accounts. And in an analysis of more than 1.3 million North American households represented by around 8,000 advisors, PriceMetrix found that the average Revenue on Assets (RoA) was highest for small households — and nearly double the RoA for large households (see chart).[4] That means there's a lot of money to be made just on small accounts.

So what if you could manage small accounts just as quickly and cost-effectively as large ones? We're here to tell you that with a few small procedural changes and the latest technology, you can.

Total Household (HH) Composition [4]

	Total HHs	% HHs	Average Assets	Average Revenue	RoA
Small (<$100k)	697,535	52.0%	$35,188	$352	1.00%
Medium ($100k-$1mm)	558,546	41.6%	$310,421	$2,615	0.84%
Large (>$1mm)	86,003	6.4%	$2,668,892	$14,377	0.54%

> "RIAs who are not addressing this underserved niche segment and just accepting the conventional wisdom of moving up their minimums are missing out on a profitable opportunity."
>
> – **Jerry Wagner**
> President and Chief Investment Officer, Flexible Plan Investments, Ltd.

4 KEYS TO MANAGING SMALL ACCOUNTS

1. Tailor your fees

Many advisors find termination rates tend to be higher among smaller accounts. This is because, as a general rule, these investors usually have less experience and are less willing to see a strategy develop. Therefore, it would be smart to make sure your pricing for small accounts reflects this. For example, you could create a higher setup fee and offset it with lower fees down the road. This ensures you cover your costs up front and provides an incentive for your clients to stick around.

2. Set a minimum

Generally, advisors who manage small accounts still set a minimum of approximately $5K per strategy. This is so an account can accommodate the diversification a given strategy demands (if the account is too small, assets can't always be allocated to all the components of the model).

3. Consider model composition

This relates very closely to the point above. In order to accommodate a low minimum, you might want to create specific strategies for small accounts. Think about the composition of your models. With mutual funds, you can buy fractional shares, which works very well in a small account environment. But if you select individual securities with too high of share prices, you may find yourself in a situation where you can't buy a position.

4. Invest in the right technology

Even if you set up the perfect pricing structure and put all the right procedures in place, you can't manage small accounts efficiently without the right technology. Investing in a model-based platform enables you to make decisions at the model level, not the account level. This means that when it comes to trading and rebalancing, each additional account — regardless of size — shouldn't take up more of your time.

THE RIGHT KIND OF TECHNOLOGY

Here at Trust Company of America, our model-centric technology — created specifically for RIAs — takes the headache out of managing small accounts. It allows you to create an unlimited number of models in a single account and then rebalance your entire book of business (or just the accounts pertaining to a particular strategy) in just a few clicks. This means each additional account you create, whether large or small, doesn't require you to spend more time on rebalancing.

Trust Company of America enables you to:

- Manage your assets at the model level and not get slowed down by each additional account.
- Rebalance in just a few clicks.
- Prevent your accounts from getting eaten by fees with asset-based pricing (no ticket charges).
- Get the best prices by trading at the omnibus level (all account-level trades get aggregated into one model-level block trade).
- Provide exclusive services such as Liberty, our mobile portfolio monitoring app, to all your clients at no extra cost.
- Bill your clients quickly and efficiently, regardless of account size.

But ultimately, the biggest benefit of using our technology is the ability to provide your best thinking to all your clients. Because they all deserve it.

> "In the first 3 years after we implemented TCA's technology, small accounts were the most profitable segment of our business."
>
> **– Jerry Wagner**, President and Chief Investment Officer, Flexible Plan Investments, Ltd.

> "The TCA platform makes it possible for us to deliver discretionary advisory services to accounts of all sizes in a way no one else can, especially when it comes to operational and cost efficiency."
>
> **– Gordon Wegwart**, President and Chief Investment Officer, Verity Asset Management, Inc.

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[1] *William Blair Stock Analyst Report*, Tiburon Strategic Advisors, January 2013

[2] *RIA Benchmarking Study*, Charles Schwab, 2013

[3] *2013 AdvisorBenchmarking RIA Trend Report*, WealthManagement.com, Summer 2013

[4] *Small Households Metrics*, PriceMetrix Insights, June 2010

About Trust Company of America

Trust Company of America (TCA) is the only independent RIA custodian offering fully integrated real-time technology, consultative services and back office support exclusively to RIAs. Since 1972, TCA has been a dedicated champion of RIAs, committed to personally helping them optimize their portfolios, streamline their business processes, and achieve their full potential — all without competing for their clients. Visit trustamerica.com to learn more.