

Investment Industry Association of Canada

Small Dealer Symposium

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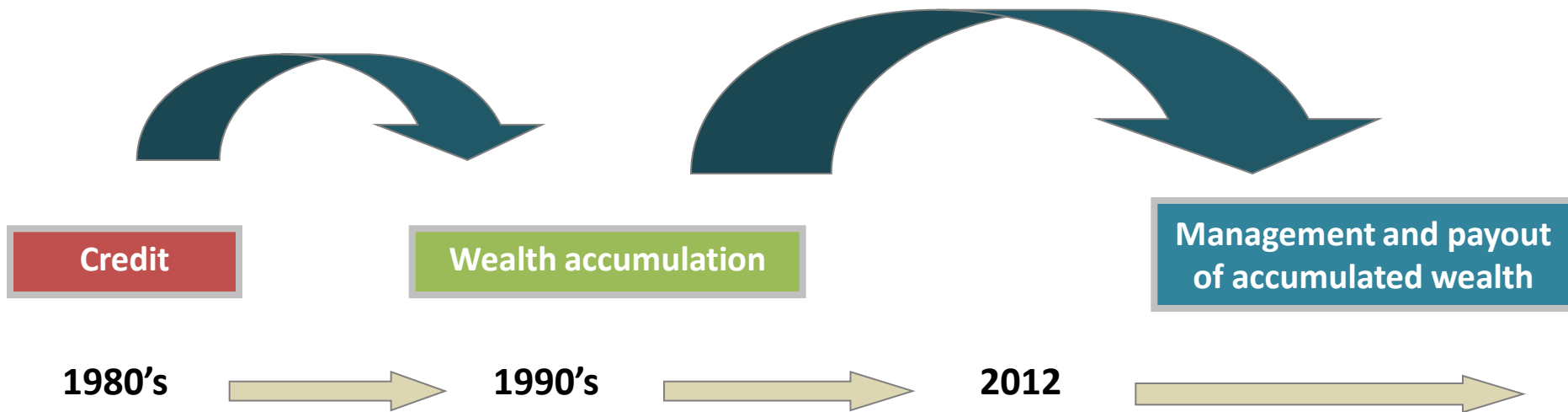
Senior Consultant and Managing Director, Consulting

June 7, 2012

Presentation Agenda

- **Influences on Wealth Management**
- **The Big Picture**
- **Full-service Brokerage - Assets**
- **Full-service Brokerage - Profitability**
- **Q&A**

Trends Impacting Wealth Management



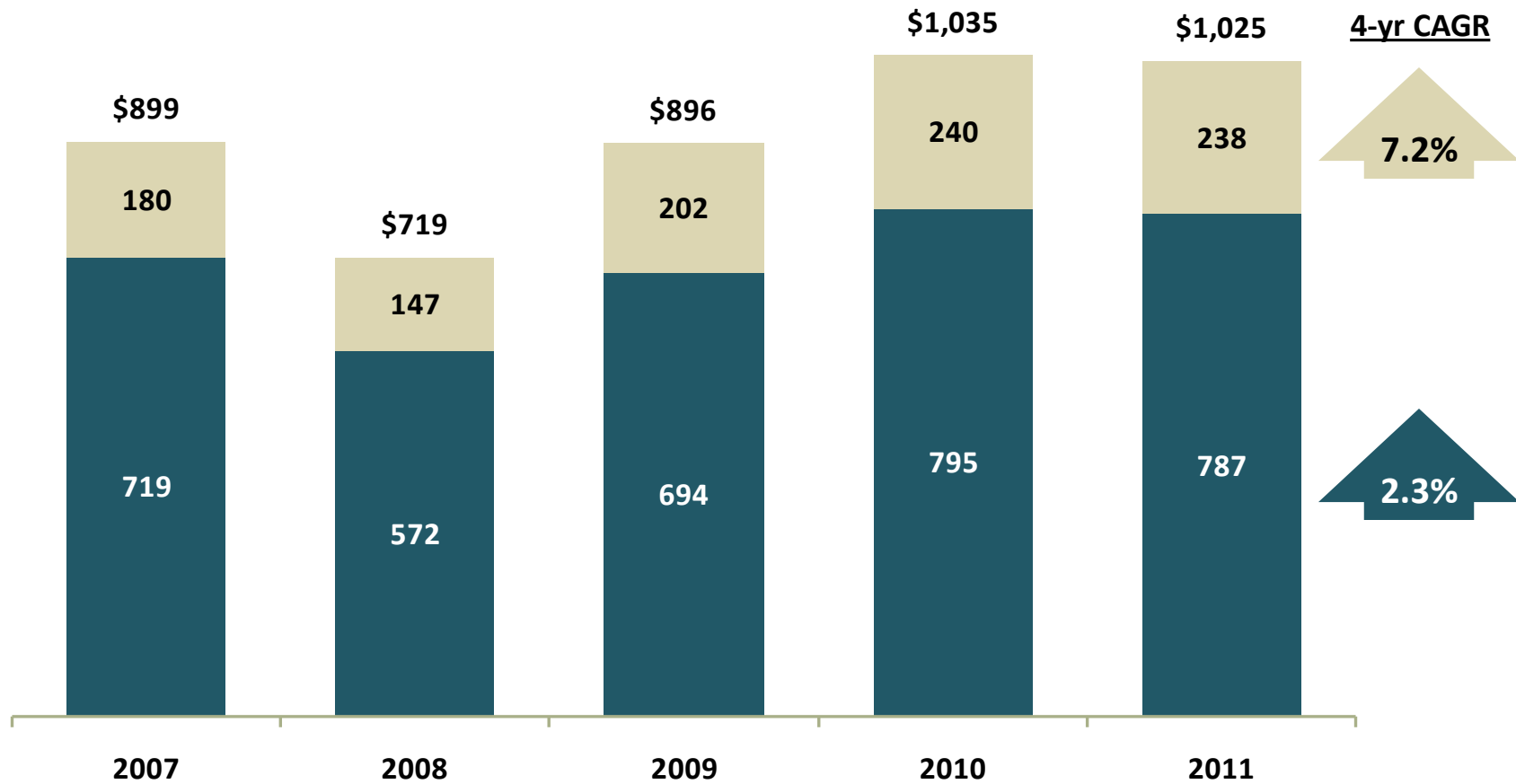
- Slower growth in personal financial assets.
- Wealth and incomes becoming increasingly concentrated.
- Age and economic uncertainty leading to an appetite for capital protection, income and liquidity.
- Debt reduction and avoidance a priority in all wealth segments.
- An unprecedented transfer of wealth from one generation to the next.
- Increase demand for advice driven by market volatility, complex products and retirement concerns

Assets

Online Brokerage Outpaces Full-service

Assets in billions of dollars

■ Full-service brokers ■ Online/discount brokers



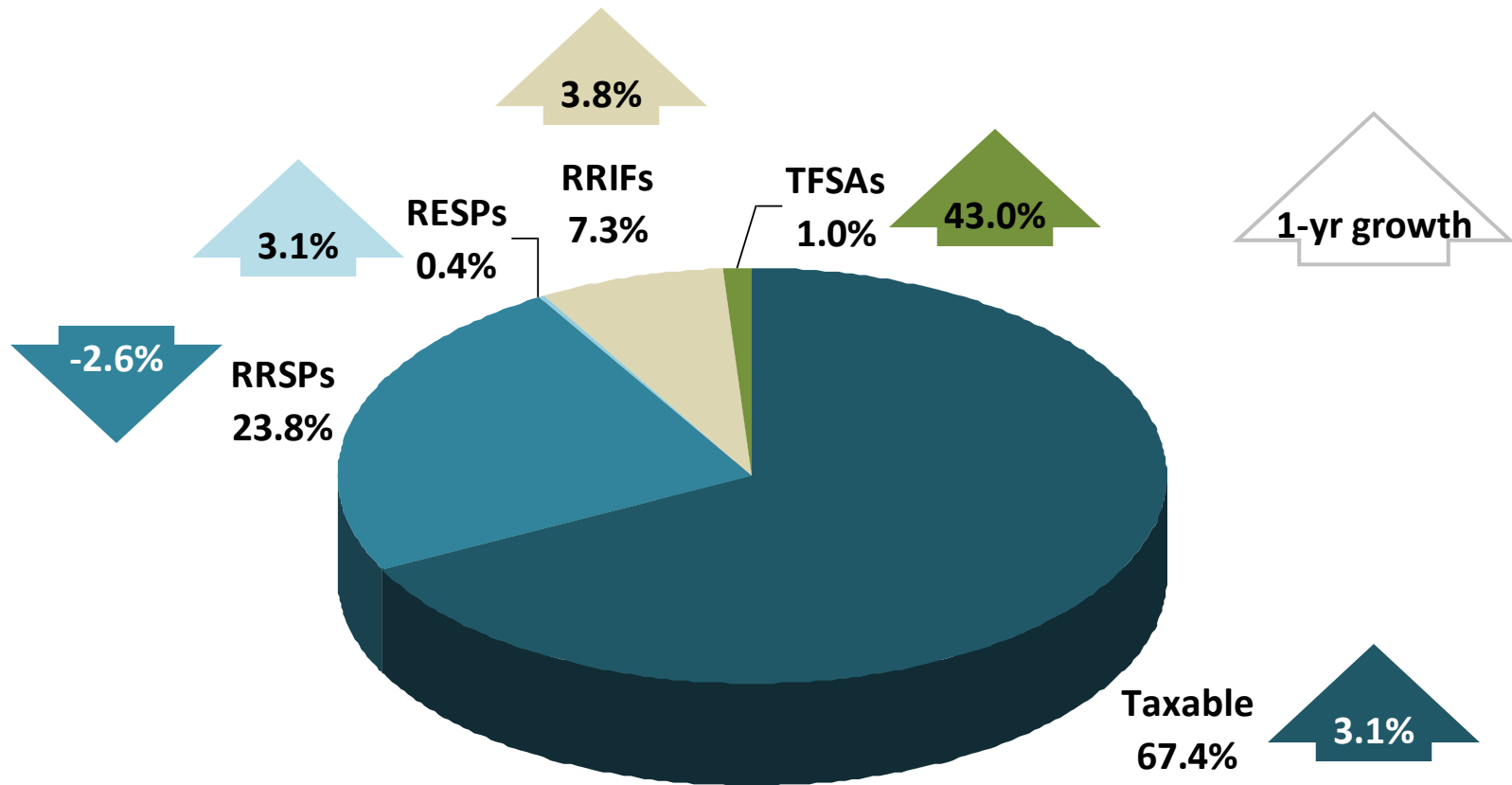
Deposits and Near-cash Represent 20% of Assets

Industry asset mix December 2011 (\$ billions)

	Dec 2011		Growth 4-yr CAGR
	Assets	Share	
Full-service brokers	\$ 787	100.0%	2.3%
Deposits	143	18.2%	15.0%
Cash	30	3.8%	5.1%
HISAs	45	5.7%	50.6%
GICs	68	8.7%	8.9%
Fixed income	137	17.4%	-1.2%
Cash equivalents	9	1.2%	-18.6%
Money market funds	7	0.9%	-11.2%
Bonds	112	14.2%	0.6%
Fixed income ETFs	8	1.0%	64.4%
Long-term investments	170	21.7%	1.6%
Equities	334	42.4%	0.2%
Other	3	0.4%	8.4%

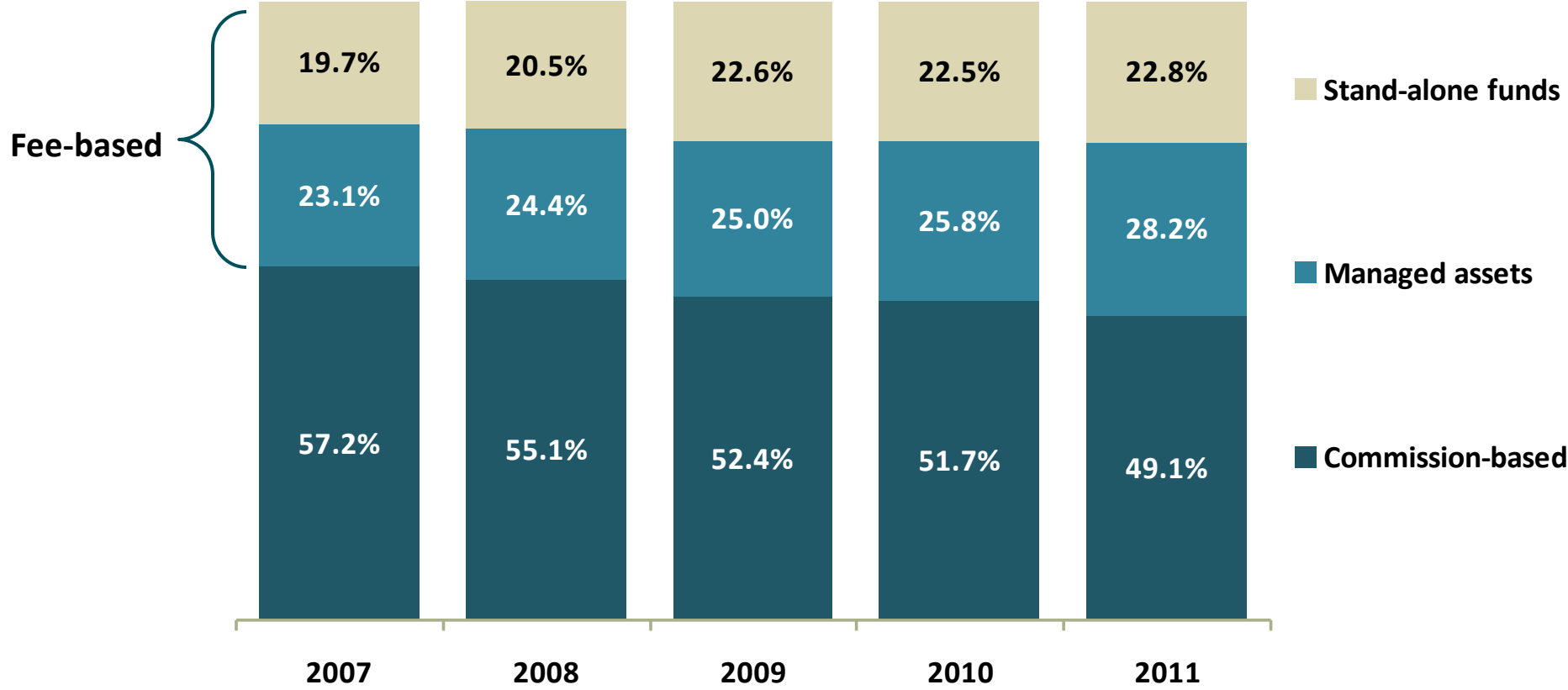
Rapid Growth in TFSAs

Full-service Brokerage Assets by Tax Status and Type of Account



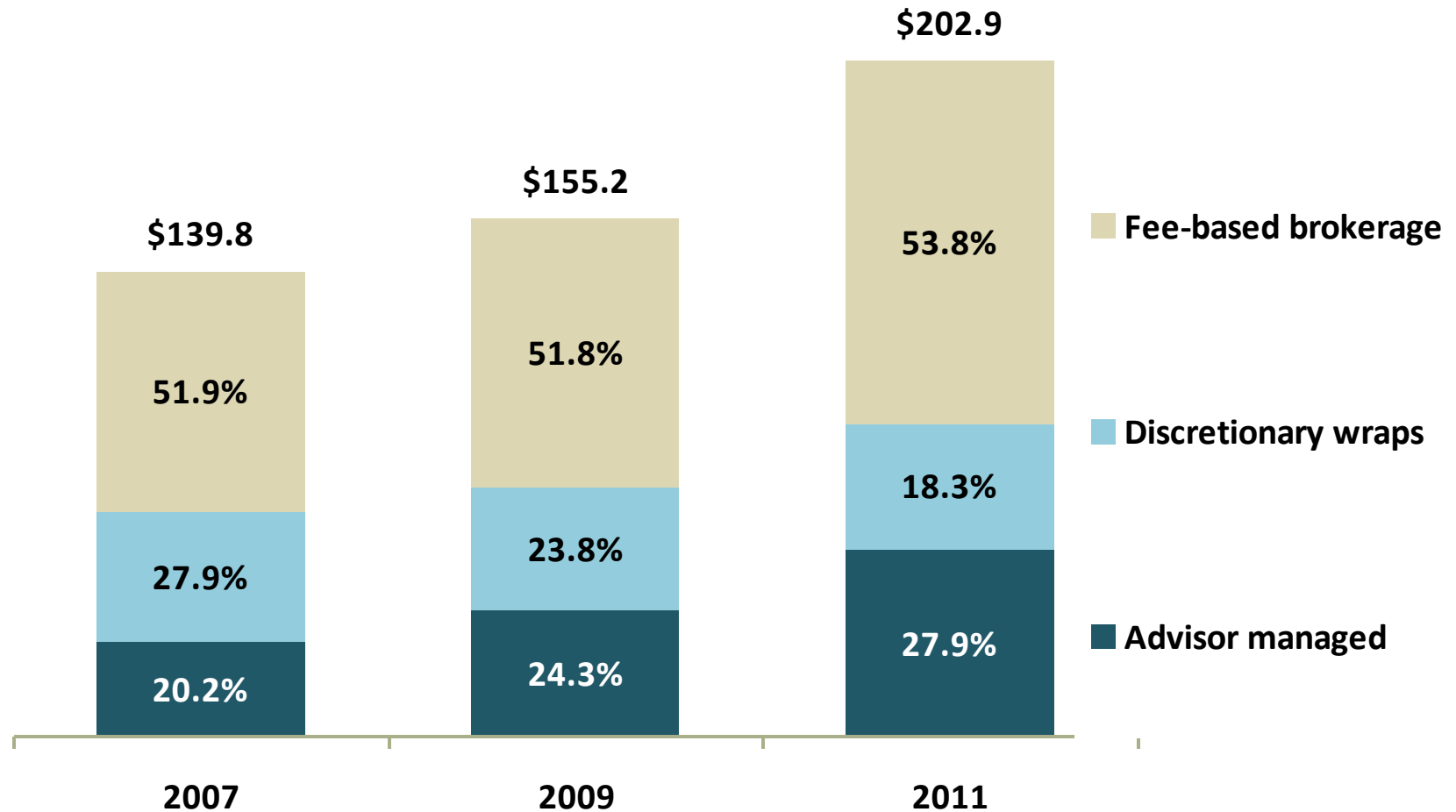
The Majority of Full-service Assets are Now Fee-based

Full-service brokerage business mix



Advisor-managed and Fee-based Brokerage Lead the Way

Assets in fee-based programs (\$ billions)



Independent Firms Flourish in Western Canada

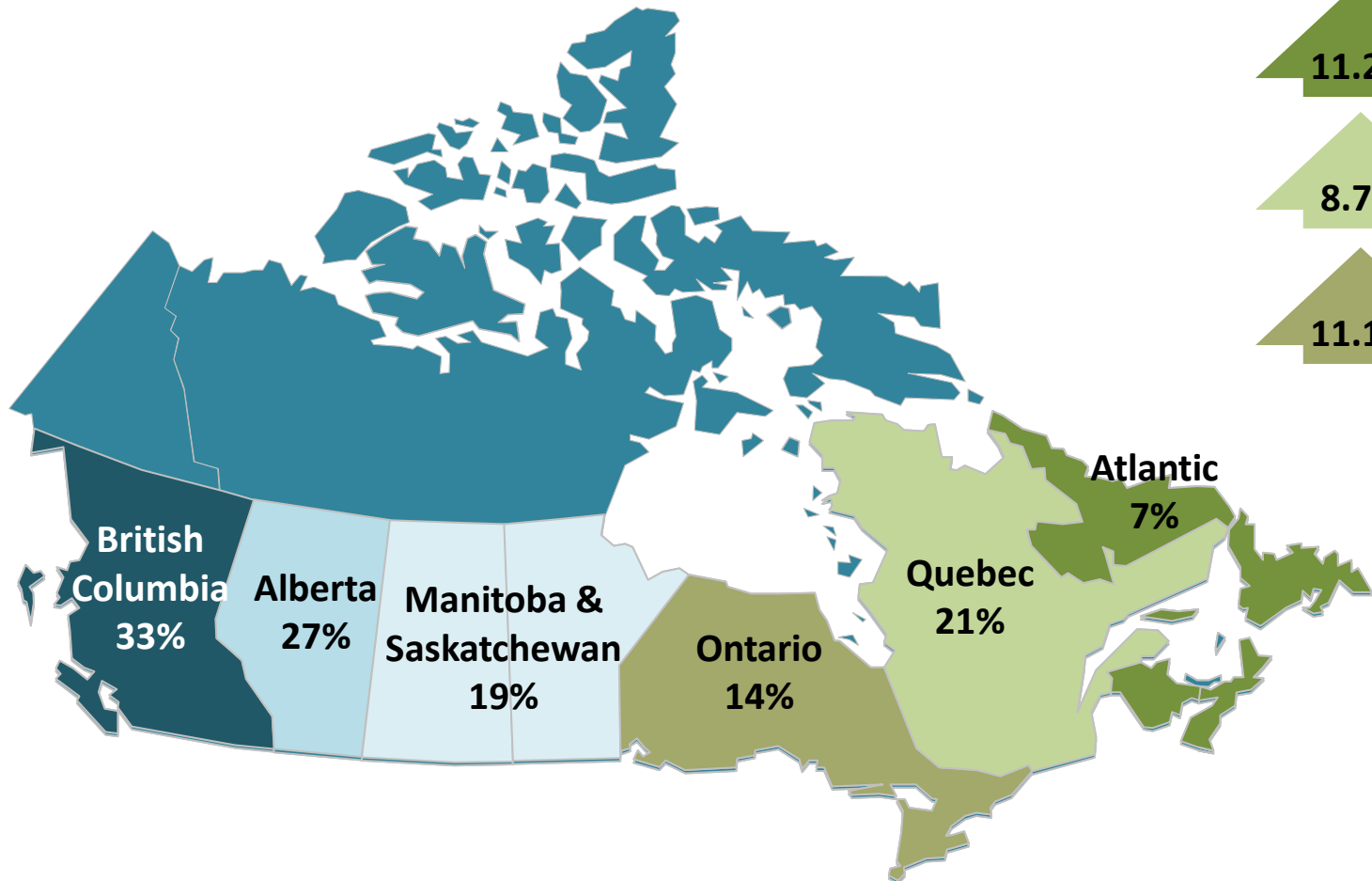
Asset growth
(3-yr CAGR)

11.9%

14.5%

10.2%

Independent Firm's Asset Share - December 2011



Asset growth
(3-yr CAGR)

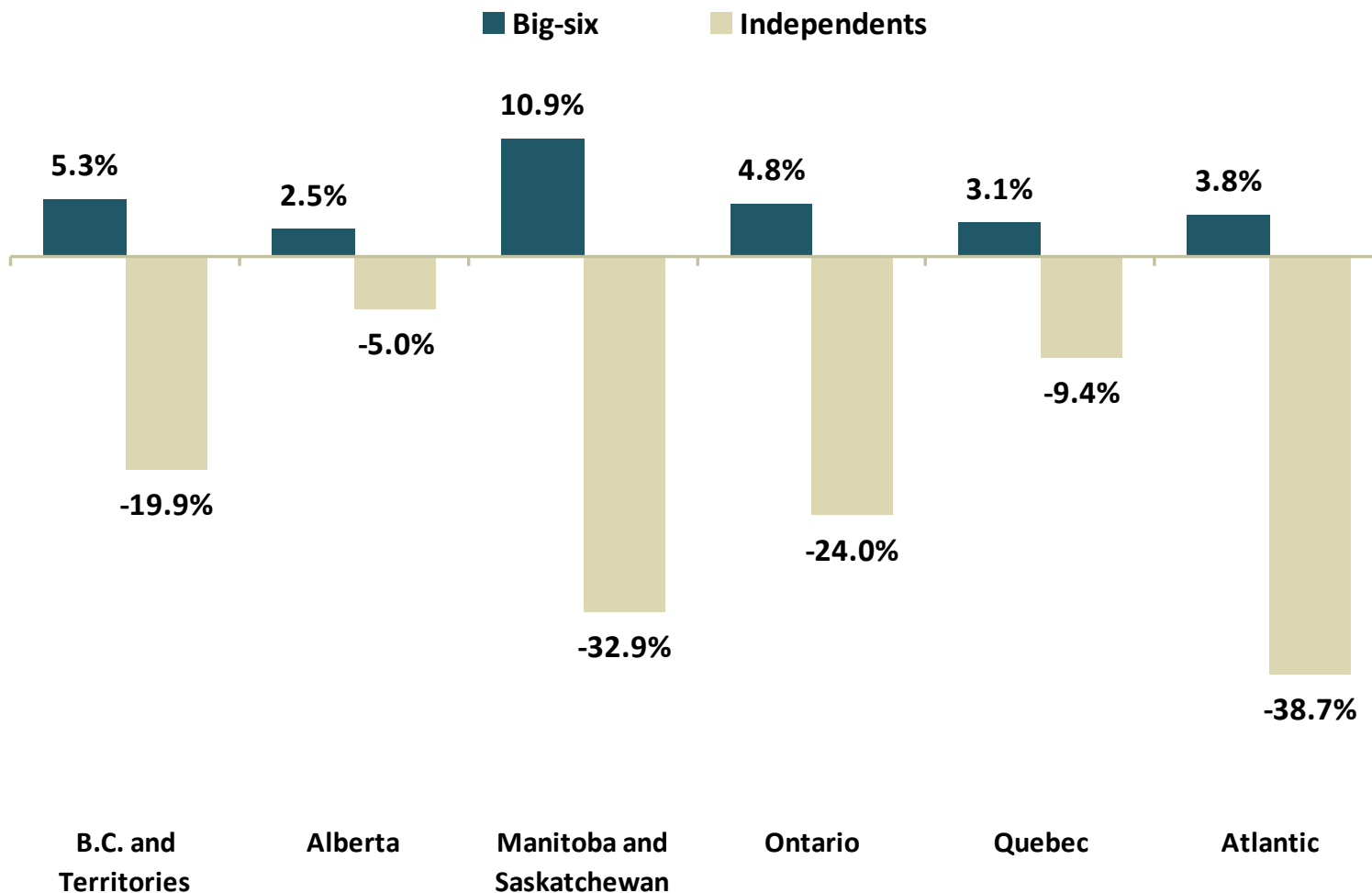
11.2%

8.7%

11.1%

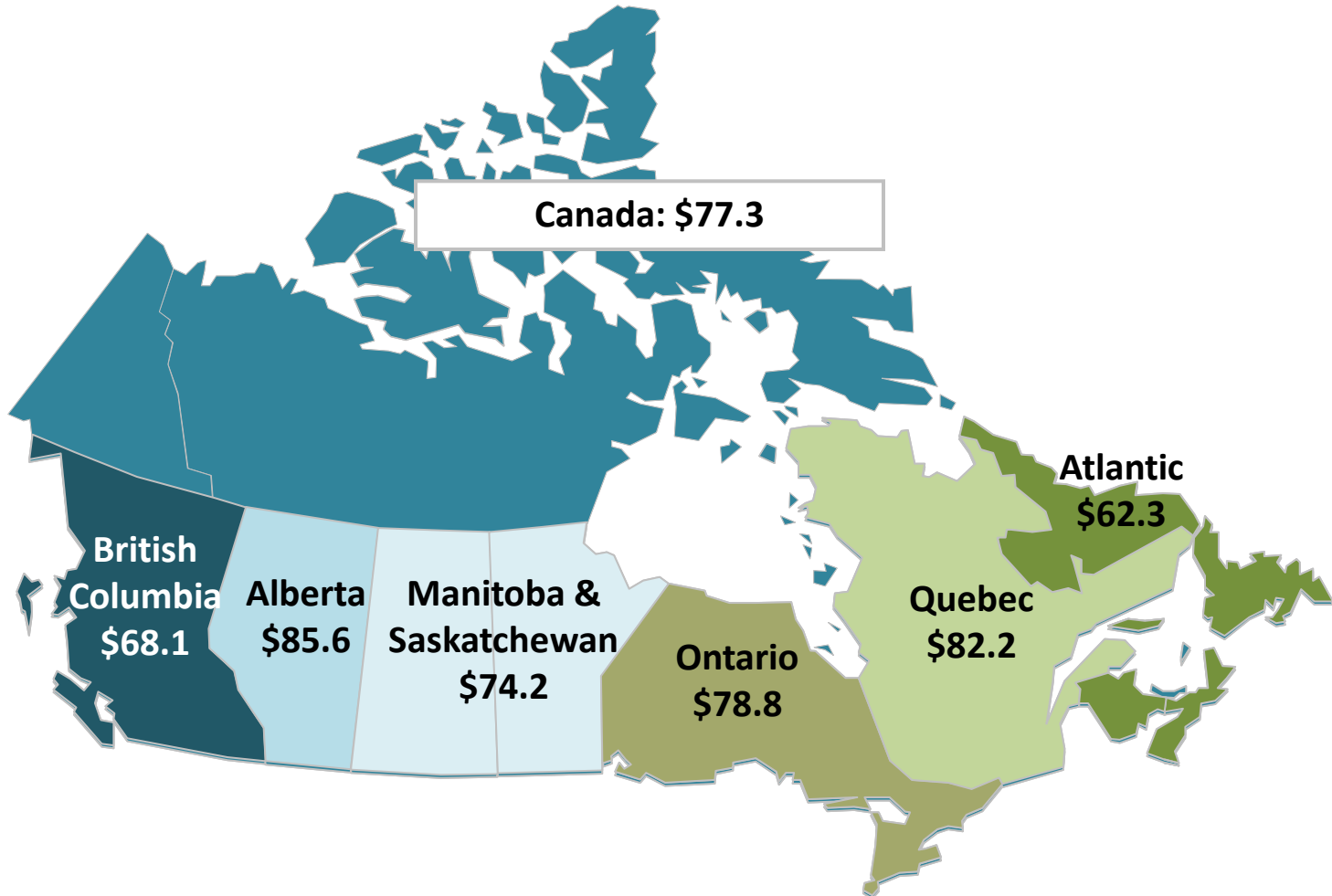
Independents Facing Challenges in All Regions

One year asset growth rates to December 2011



Alberta Leads in Average Assets per Advisor

Average assets per advisor (\$ millions)

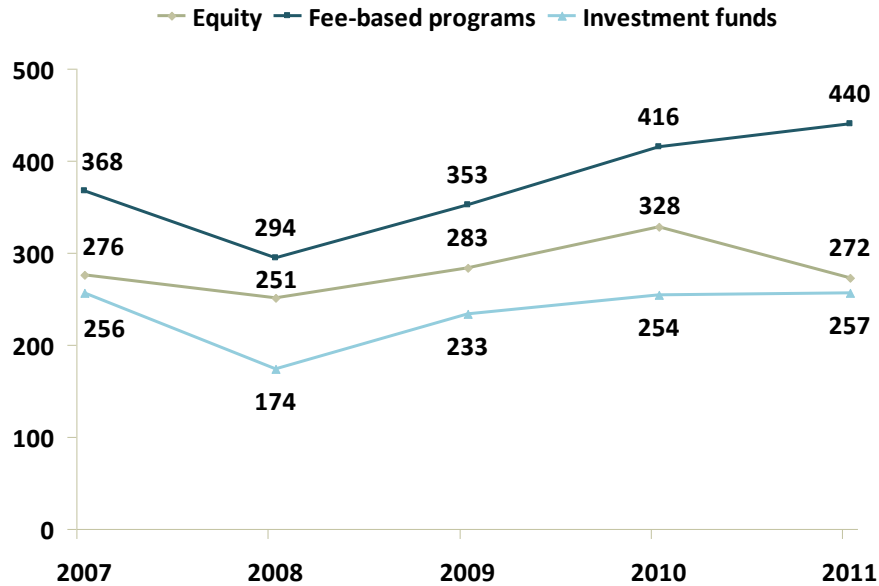




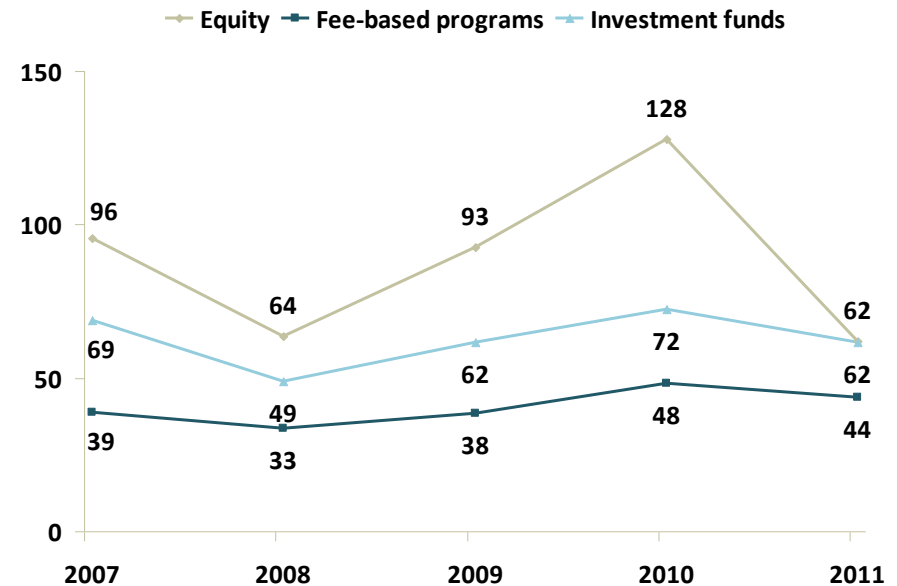
Profitability

Independents Far Less Reliant on Revenue from Fee-based Programs

Big Six revenues (\$ millions)

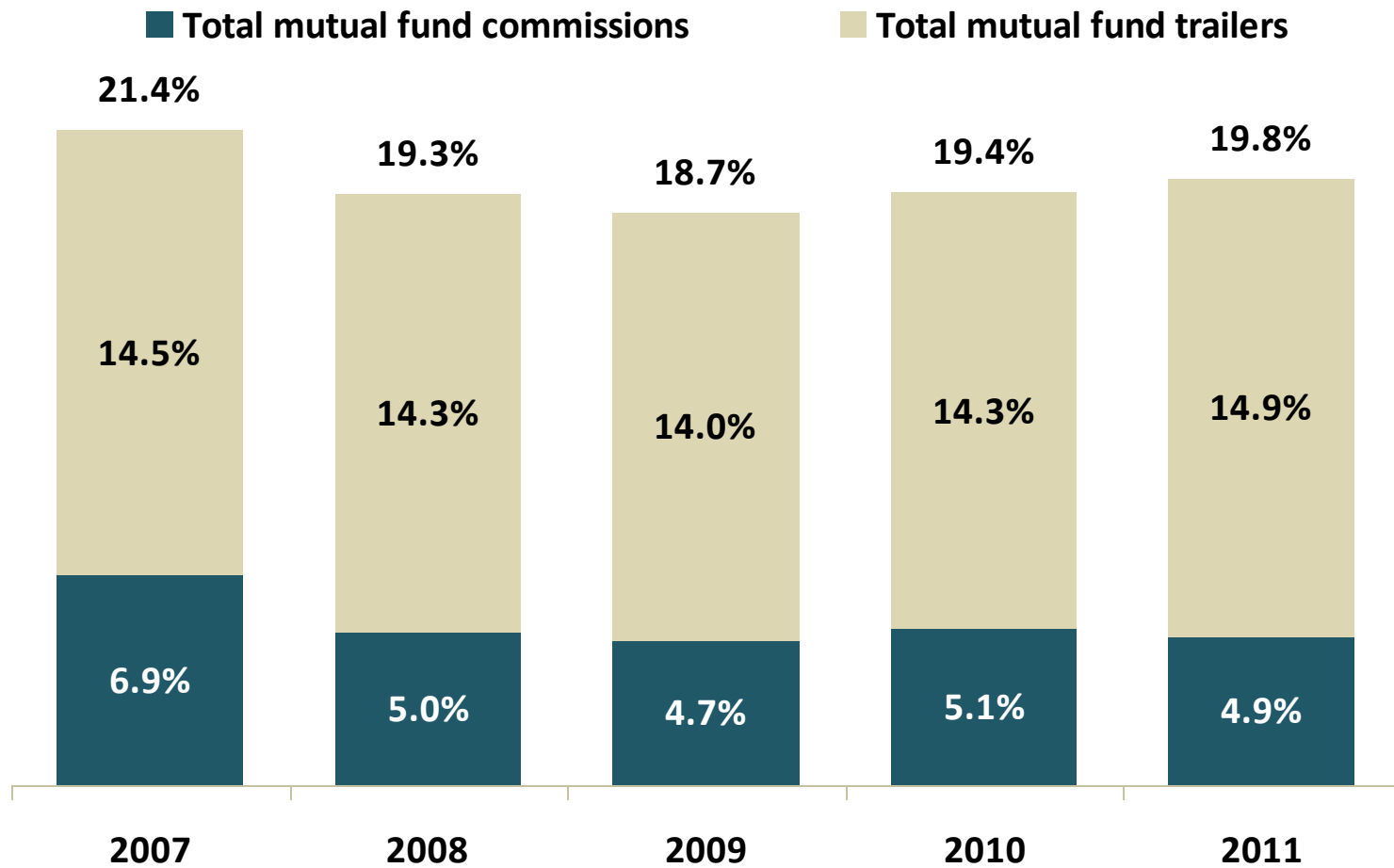


Independents' revenues (\$ millions)



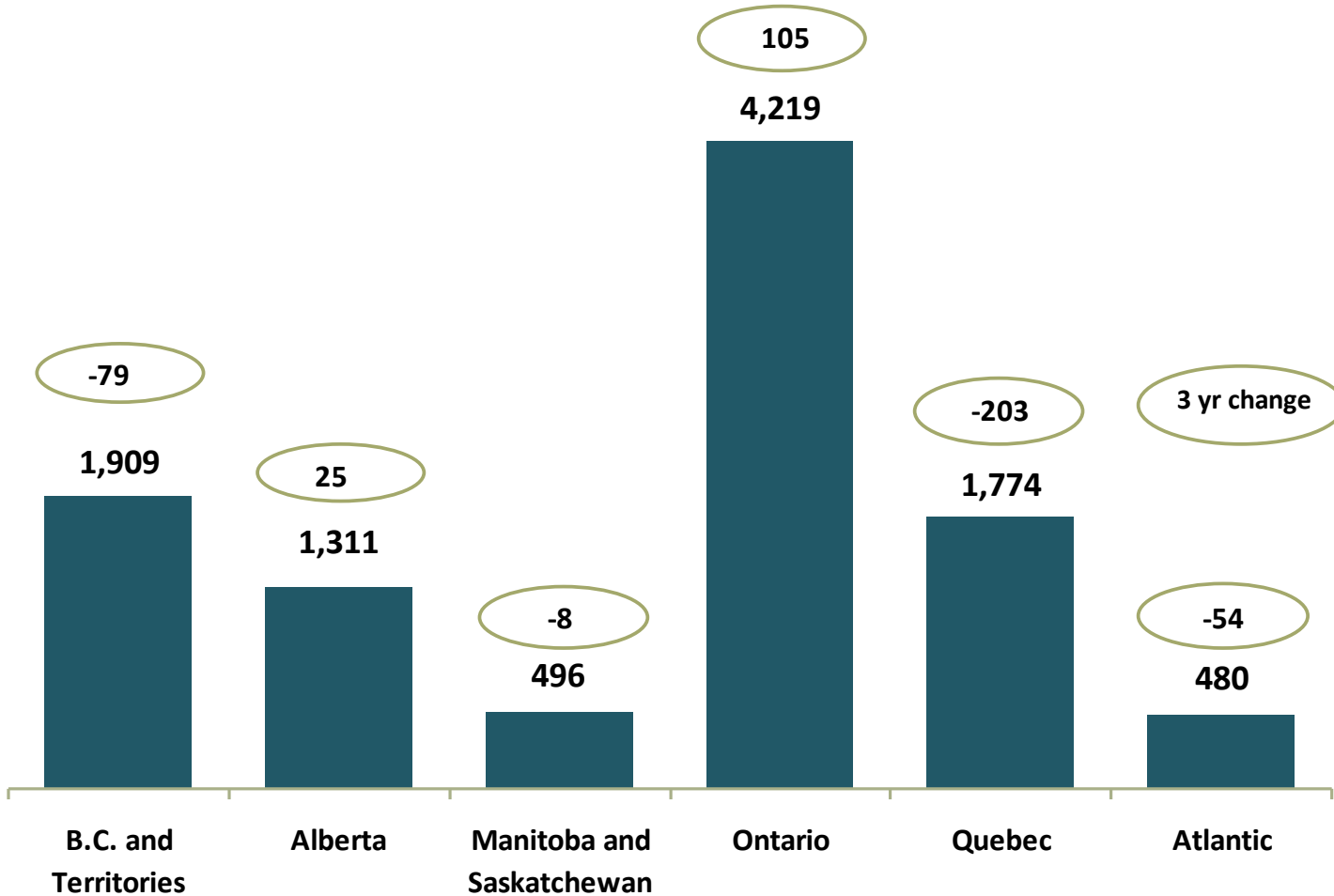
Slow Recovery in Share of Mutual Fund Revenue

Full-service brokerage share of total mutual fund revenues



Ontario and Alberta are Growing Their Advisor Ranks

Geographic distribution of advisors



Independents Experience Steady Improvement

Annual revenue, expenses and net profit per advisor (\$ thousands)

Big-Six	2009	2010	2011
Revenue per advisor - national average	\$673	\$780	\$839
Grid payout expense per advisor	(267)	(311)	(335)
Expenses per advisor (excl. grid payouts)	(327)	(352)	(370)
Net profit per advisor	\$79	\$117	\$134

Independents	2009	2010	2011
Revenue per advisor - national average	\$399	\$501	\$539
Grid payout expense per advisor	(186)	(238)	(254)
Expenses per advisor (excl. grid payouts)	(233)	(264)	(279)
Net profit per advisor	-\$19	-\$1	\$6

Issues and Implications for Full-service Brokerage

Issues	Outlook	Implication
Slow Industry Growth	<ul style="list-style-type: none">• Limited opportunity for revenue growth• Consolidation wave likely to continue	<ul style="list-style-type: none">• Challenge• Challenge
Demographic Changes	<ul style="list-style-type: none">• Increase in upscale and affluent households• Heightened concentration of wealth• Aging client base	<ul style="list-style-type: none">• Opportunity• Challenge• Challenge
Heightened Demand for Advice	<ul style="list-style-type: none">• Brokerage projected to outgrow other channels• Capacity constraints leading to packaged solutions	<ul style="list-style-type: none">• Opportunity• Challenge
Move from commission to fee-based	<ul style="list-style-type: none">• Shift to wealth management• Reliable revenue streams	<ul style="list-style-type: none">• Challenge• Opportunity

Issues and Implications for Full-service Brokerage

Issues	Outlook	Implication
Competitive Pressure	<ul style="list-style-type: none">• Bank brands may create competitive disadvantage• Operating margins will remain under pressure	<ul style="list-style-type: none">• Challenge• Challenge
Deposits Gaining Share	<ul style="list-style-type: none">• Volatile markets may increase focus on liquidity• Limited revenue flows	<ul style="list-style-type: none">• Challenge• Challenge
Increase in Self-Reliant Investors	<ul style="list-style-type: none">• Search for low cost solutions• Growth in use of online brokerage• Technology driven service	<ul style="list-style-type: none">• Challenge• Challenge• Challenge



Q&A

The background is a solid teal color. It features faint, semi-transparent graphics including a line graph with multiple peaks and valleys, a bar chart with several vertical bars of varying heights, and a pattern of binary code (0s and 1s) scattered across the lower portion. The text is centered in the upper-middle part of the image.

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