



**Financial Advisors to Embrace More Sophisticated Investment Products Over the Next Two Years, According to New Data from Cogent Research**

*Mutual funds to experience the biggest decline, more than 10 percent, within advisors' product selections on behalf of clients*

**Cambridge, Mass., (December 7, 2007)** – The open-end mutual fund, long the dominant investment product of choice by financial advisors, will suffer declines in its portion of the product mix by more than 10 percent by 2009, according to the Advisor Product Forecast™, a new study by Cogent Research. The Advisor Product Forecast is built upon a detailed channel-by-channel survey of advisors, providing data beginning with where advisors are currently directing assets under management and where they expect to be two years from now, along with a product map showing where they intend to allocate new money.

Advisors, armed with better technology and more product options, and tasked by clients to be productive wealth managers, are more readily exploring newer investment vehicles to best meet individual client needs. And within this landscape is a need for advisors to expand their own revenue channels by buying and recommending investment products that serve clients well and can be executed within the growing fee-based environment. While advisor use of specific products varies by channel, the research shows that advisors are often conflicted by the need to select more sophisticated products that match clients' complex needs, but challenged by their ability to explain these complex products to clients.

Despite the complexity and challenges in client communication, a shift is coming. Products expected to see the most dramatic increase in market share include separately managed accounts (SMAs) and exchange-traded funds (ETFs). Cogent's Advisor Product Forecast™ identifies several key factors impacting the industry's future:

- Mutual funds and individual securities will continue to give up share to emerging products.
- SMAs will be the chief beneficiaries of the continuing trend away from traditional products.
- ETF growth is being driven by specialized use among advisors focused on wealth management.
- Variable annuities will struggle to increase market share – no growth is expected – despite an environment that should favor their features.

- Fees based on AUM will comprise the majority of income for most advisors – and this will influence their product selection.

“Advisors are the public face and personification of the asset management industry, and their roles evolve primarily in response to two issues: changes in the industry as well as investor perceptions, attitudes and needs,” according to Bruce Harrington, managing director, Cogent Research. “Advisors are in a unique position to not only observe and evaluate trends in asset management products and accounts, but also to gauge their clients’ evolving receptivity to traditional versus new investment options. As a result, the actions of advisors show a marked, definitive shift in product selection in the coming two years.”

With regard to investment product categories, the data shows that:

- Fewer than two advisors in 10 anticipate increasing their use of **open-end mutual funds**, and the mutual fund share of the product pie will drop from 35 percent to 31 percent. On average, advisors say they will remain loyal to six primary mutual fund providers. Advisors report that the two mutual fund providers most used today, American Funds and Franklin Templeton, will maintain their market share at the end of 2009.
- **SMA**s and **ETF**s will be the beneficiaries of the reduction in assets allocated to mutual funds due to their tailored asset management features and ability to allow investors to allocate across sectors and indexes.
- **Closed-end funds** will continue to occupy only a small segment of advisor AUM; however, their niche appeal to advisors and high net worth investors should be sustained.
- **Hedge fund** use will remain limited to a small portion of advisor portfolios.
- **Variable annuities** will struggle to build market share, constricted not by product attributes – which are appealing to some – but due to existing advisor compensation structure and negative perceptions.

The forecast breaks down the four primary advisor channels, Nationals, Regionals, Independents and Registered Investment Advisors (RIAs), as well as by advisor AUM, tenure and compensation, and age and investable assets of clientele. The product spectrum researched includes: open-end mutual funds, closed-end funds, SMA, ETF, fixed and variable annuities, individual securities, fixed index annuities, hedge funds and life insurance.

The Advisor Product Forecast™ is based on online surveys of a representative cross section of 1,266 U.S.-based advisors, and was conducted between September 21 and October 30, 2007. Survey participants were required to have an active book of business of at least \$1 million, and offer investment advice or planning services to clients on a fee or transactional basis.

“There are consistent themes that investment product manufacturers need to respect,” said Harrington. “It’s a simple tenet of marketing: a product must capitalize on its positive attributes and combat its negative ones. How can financial services companies respond to these clear needs by advisors? Improve loyalty ratings. Build brand. Increase innovation and communicate greater product differentiation. Advisors will respond to those firms and products that can execute on these themes.”

### **About Cogent Research**

Cogent Research helps clients gain clarity, obtain perspective, and formulate direction on critical business issues. Founded in 1996, Cogent provides custom research, syndicated research products, and evidence-based consulting to leading organizations in the financial services and life sciences industries. Through quality research, advanced analytics, and deep industry knowledge, Cogent Research delivers data-driven solutions and strategies that enable clients to better understand customers, define products, and shape market opportunities in order to increase revenues and grow the value of their products and brands.

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