

June 29, 2010



Nationwide Survey Finds: Despite Market's Recent Volatility, Investors Express Confidence, High Level of Satisfaction in Their Advisory Relationships

NEW YORK, June 29 /PRNewswire/ --

- 8 in 10 advised investors say professional advice worth more than it costs
- 87% say their financial advisor "always acts with my best interests at heart"
- Only 12% believe their advisor didn't adequately explain market risks

BUT INVESTORS ARE FOGGY ON ADVISORS' ROLES AND OBLIGATIONS, WARY OF THE FINANCIAL SERVICES INDUSTRY GENERALLY

- 36% say that all financial advisors act under the same rules; 32% are not sure
- 73% not familiar with the debate over fiduciary standards
- Just 40% of advised investors say their advisor is clear on compensation
- 73% say they are increasingly cynical about financial services providers

EAGER FOR GREATER ACCOUNTABILITY, INVESTORS AREN'T WAITING FOR RESOLUTION OF REGULATORY DEBATE

- 57% of advised investors say their expectations for advisory services have increased
- 98% of investors - 65% strongly - would support regulation that held all financial advisors to the same standard of service
- Yet 69% agree that fiduciary responsibility cannot be legislated - "you must rely on the integrity of the financial advisor"

The Fiduciary Opportunity: Advisors, Industry Have Watershed Opportunity To Strengthen Investor Loyalty by Better Aligning Practices with Client Interests

While two years of economic uncertainty and market turbulence have left investors wary of the financial services industry, individual relationships between investors and their financial advisors are fundamentally strong – and the fiduciary standards debate, regardless of

outcome, represents a watershed opportunity for financial advisors and the industry alike to bolster investor confidence.

Those are among the key findings of surveys of investors and financial advisors released today by Investnet, a leading provider of wealth management solutions to the advisory industry.

Eighty-seven percent of advised investors say that over the past 18 months "my financial advisor always acted with my best interests at heart" and close to 8 in 10 (79%) say the "value I have received from my financial advisor was more than worth the cost." Sixty-two percent of advised investors say their portfolio has done better over the past two years compared with most people they know. Only 12% of advised investors said their advisor "did not explain the risks of the market as well as he/she should have."

But as strong as individual investor-advisor relationships are, market turmoil has taken a toll. Seventy-three percent of investors say that the market and economic turbulence of the last two years has left them increasingly cynical about the financial services industry.

"Individual relationships have weathered the market storm, but there is no question that overall the financial services industry has taken a reputational hit," said Bill Crager, president of Investnet. "While investors generally feel well served by their financial advisors, the extreme market disruptions of the last two years have provoked investor concerns about the integrity of the financial services industry and of the markets alike."

It's not only investors who believe that advisor-investor trust needs some reinforcement. Most financial advisors polled by Investnet said they agree that while they look after their clients' best interests, a lot of other financial advisors do not. And – while they grade themselves highly on explaining their professional responsibility to clients – advisors give other financial advisors a "C" when it comes to this attribute.

"Our surveys indicate investors' desire to work with financial advisors who put clients' best interests squarely at the heart of the relationship and who deliver a heightened level of service," Crager said.

National surveys of 1,023 investors with \$250,000 in assets or more and 504 financial advisors were conducted via the Internet between April 14 and 30, 2010 for advisors and April 21 and 27 for investors by the national polling firm of Mathew Greenwald & Associates. Of the 1,023 investors surveyed, 76% were recruited if they were working with someone they considered their primary financial advisor. A similarly-sized random sample of 1,023 respondents would have a margin of error at the 95% confidence level of plus or minus 3.1 percentage points. Likewise, a similarly-sized random sample of 504 advisors would have a margin of error at the 95% confidence level of +/- 4.4 percentage points.

Confusion/Misunderstanding About Professional Responsibility

Advised investors are generally complimentary of their financial advisors. When asked to grade their advisor on key relationship attributes, just under three-quarters (74%) award their advisor an "A" for integrity, 65% give them an "A" for availability and responsiveness, and more than half give that mark for "looking out for me" and "focusing on (my) goals."

At the same time, investors and advisors alike are confused on how and when professional standards of responsibility – the so-called "fiduciary standard" – apply to financial advisors.

Thirty-six percent of the investors polled by Envestnet say that to the best of their knowledge, all financial advisors are subject to *the same obligation* to act in their clients' best interests; 32% say they are not sure. Even 44% of advisors believe there is one standard for all advisors. (In fact, only registered investment advisers, or RIAs, are currently subject to the fiduciary standard to act in clients' best interests; brokers are generally subject to the less stringent transactional suitability standard).

The issue of advisors' professional responsibility has been under scrutiny for months, with Congress weighing a proposal to make all financial advisors subject to a formal fiduciary standard as part of pending legislation for financial services industry reform.

"Even as legislators at the national level debate whether all financial advisors should adhere to a uniform professional standard, it's clear that the great majority of investors – as well as many financial professionals – don't know how to accurately define the scope and nature of a financial advisor's responsibility to his or her clients," said Crager.

Financial advisors and investors generally agree that external factors such as high profile scandals like Bernie Madoff and the market collapse of 2008-2009 have been big factors in shaping a heightened focus on professional responsibility.

But investors – to a much greater degree than financial advisors – cite too much loss of investor wealth (cited by 57% of investors vs. 37% of financial advisors), growing investor empowerment (57% vs. 18%), and personal satisfaction notwithstanding, a loss of trust in financial advisors generally (58% vs. 34%) as major reasons why financial advisor responsibility is now under such close examination.

"Investors' perceptions of the fiduciary debate and of the underlying factors – from a loss of trust to a growing sense of empowerment – are telling," Crager said. "It's clear that investors have a growing appetite for advisory relationships built on a platform of mutual trust and respect between client and advisor."

Fees and Compensation a Sticking Point

As high as clients rank their financial advisors on many relationship qualities, it also is clear that for many investors, the overall issue of fees and compensation remains a sticking point.

When asked to grade their financial advisors on specific attributes, clients score advisors least highly on "transparency of fees"; just 40% of advised investors say their financial advisor is very clear on how they are compensated; and 37% believe their financial advisor should provide more information/greater detail on compensation.

Advised investors strongly agree (75%) that "financial advisors should not receive hidden incentives to choose one investment over another for their clients." But at the same time, more than half of advised investors agree they cannot assess well whether their advisor gets such incentives. Nor can many assess well how their financial advisor gets paid (43%) and whether or not there are any hidden fees (46%).

"Something is getting lost in the discussion between advisors and clients about fees and

expenses," Crager said. "It's hard to build a foundation of trust if an investor feels that a financial advisor is withholding certain information. Advisors need to redouble efforts to help their clients understand and feel comfortable with what they're paying."

Concerns and/or lack of clarity over advisor compensation are also major factors inhibiting many investors from engaging a professional financial advisor. The survey found that among investors not working with a financial advisor, financial advisors were deemed less likely than auto mechanics, physicians, contractors or real estate agents to be "open about fees, expenses and what they are doing for the money."

The Fiduciary Standard: Actions Speak Louder than Words

The Investnet survey suggests that investors are keenly interested in better understanding the professional responsibilities and obligations of financial advisors – and would look favorably on advisors who take steps to communicate that responsibility, regardless of whether a uniform professional standard is legislatively imposed.

While most investors said they were not familiar with the details of the fiduciary standard debate, an overwhelming majority of the investors surveyed (98%) would support a regulation that held all financial advisors to the same standard of client service, and 63% said that a universal fiduciary standard would increase their confidence in the value of an advisory relationship.

But most investors (69%) also believe that fiduciary responsibility cannot be legislated – and that "you must rely on the advisor's integrity."

"Regardless of how the regulatory discussion is resolved – or even if it remains unresolved – there is a clear opportunity for financial advisors to strengthen relationships and client loyalty by demonstrating their dedication to doing what they believe is best for every client," Crager said.

Nearly three-quarters of advised investors said they would have more confidence in a financial advisor who offered a "bill of rights" specifying what the client is entitled to and how the advisor works.

However, only four in 10 advised investors say their financial advisor has ever formally explained their fiduciary responsibility to them. And only about one-third of financial advisors say they have a formal "code of conduct" that they discuss with clients in addition to what's required from a fiduciary standpoint.

"Investors aren't holding their collective breath waiting for new legislation, and they don't believe that new regulation is the only meaningful response to the issue of advisory responsibility," Crager said. "Fundamentally, investors believe that when it comes to encouraging confidence and trust, what occurs in the interaction between financial advisor and client is far more important than what a regulation says."

But relationships are a two-way street, and just as financial advisors need to do a better job communicating their responsibility to clients, the survey indicates that investors also need to step up their communication. Just five percent of advised investors strongly agree that over the past 18 months they have asked more questions regarding their financial advisor's fees

and compensation and less than a quarter (21%) say they have substantially increased the extent to which they talk to their advisor about their goals.

"The research represents a call to action for investors and financial advisors alike," Crager said. "At Envestnet, we use a unified technology platform, powerful analytics and a comprehensive suite of investment options to help financial advisors deliver investor-centered, customized solutions to clients. But those tools create the most value when advisor/client communications are open and interests are squarely aligned."

ABOUT ENVESTNET

Envestnet is a financial advisor's gateway for wealth advisory solutions. Through an integrated technology platform, the company offers a broad range of investment products as well as fee-based services and solutions that include extensive reporting capabilities and front-, middle-, and back-office administrative tools to the independent financial advisor. Envestnet is headquartered in Chicago with offices in Boston, Denver, New York, Silicon Valley and Trivandrum, India. The firm has over \$94 billion in total assets served and more than 685,000 investor accounts.*

This press release contains no investment advice or recommendations and is provided for informational purposes only. Any investment is subject to risk. The asset classes and/or investment strategies described may not be suitable for all investors and investors should first consult with a financial advisor before investing. Investment decisions should be made based on the investor's specific financial needs and objectives, goals, time horizon, tax liability and risk tolerance. Neither Envestnet nor its representatives render tax, accounting or legal advice. Past performance is not a guarantee of future results.

****Data includes assets under management and administration and licensing agreements as of 3/31/2010.***

SOURCE Envestnet