

NextGen Investing: The Future of Financial Advice and Management

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U.S. Household Wealth is Still Significant: Someone has to Manage It!

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U.S. Household Net Worth is Currently \$58 trillion
After Peaking in 2007 at \$64 trillion

	(trillions)	
Financial Assets (gross)	\$49	
Non-Financial Assets (gross)	23	→ mainly real estate
	72	
Less- Household Debt	<14>	→ mainly mortgage debt (\$10 tril) and consumer debt (\$2.4 tril)
NET WORTH	\$58	

Source: Federal Reserve., *Flow of Funds Accounts of the United States.*, June 9, 2011

U.S. Household Financial Assets

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	(trillions)	
Bank Deposits	\$6.8	→ new all time high! current yield low
Money Market Funds	1.2	→ all time peak \$1.6 tril in 2008
Taxable Bonds/ Security	3.1	→ includes \$1.0 tril U.S. Treasuries
Municipal Bonds	1.1	→ this has been steadily rising over time
Equities (Direct)	8.8	→ peaked at \$9.6 tril in 2007
Mutual Funds	5.1	→ new all time high!
Pension Plan Reserves	13.5	→ new all time high!
Private Businesses	6.6	→ peaked at \$8.8 tril in 2006
Life Insurance	1.3	→ has been steady
All Other Assets	1.5	
Total Financial Assets	\$49	→ just below all time high of \$51 tril in 2007

Source: Federal Reserve., *Flow of Funds Accounts of the United States*, June 9, 2011

The Target Market for Financial Advisors/Managers

The Demographics of Family Net Worth

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Percentile rank	0-25%	25-50%	50-75%	75-90%	Top 10%
Median Family Net Worth	\$1,200	\$54,200	\$219,800	\$571,400	\$1,890,700

Age of Family Head	
<35 years	\$11,800
35-44	\$86,600
45-54	\$182,500
55-64	\$253,700
65-74	\$239,400
75+	\$213,500

Family Structure	
Single w/children	\$41,000
Single, no child, age <55	\$18,000
Single, no child, age ≥55	\$140,800
Couple w/children	\$141,100
Couple, no child	\$191,000

Housing Status	
Own home	\$234,200
Rent	\$5,100

Work Status	
Employed by someone else	\$93,200
Self-employed	\$388,700
Retired	\$161,300
Unemployed/Other	\$5,700

Level of Education	
No high school diploma	\$33,200
High school diploma	\$80,300
Some College	\$84,700
College	\$280,800

Ethnicity	
White non-hispanic	\$170,400
All other	\$27,800

Target market for advisors: Older, college-educated, self-employed or retired, white, homeowner in top 25% net worth.

Source: Federal Reserve, 2007 Survey of Consumer Finance, February 2009 (INCLUDES primary residence)

Target Market for Financial Advisors/Managers: The High Net Worth Family

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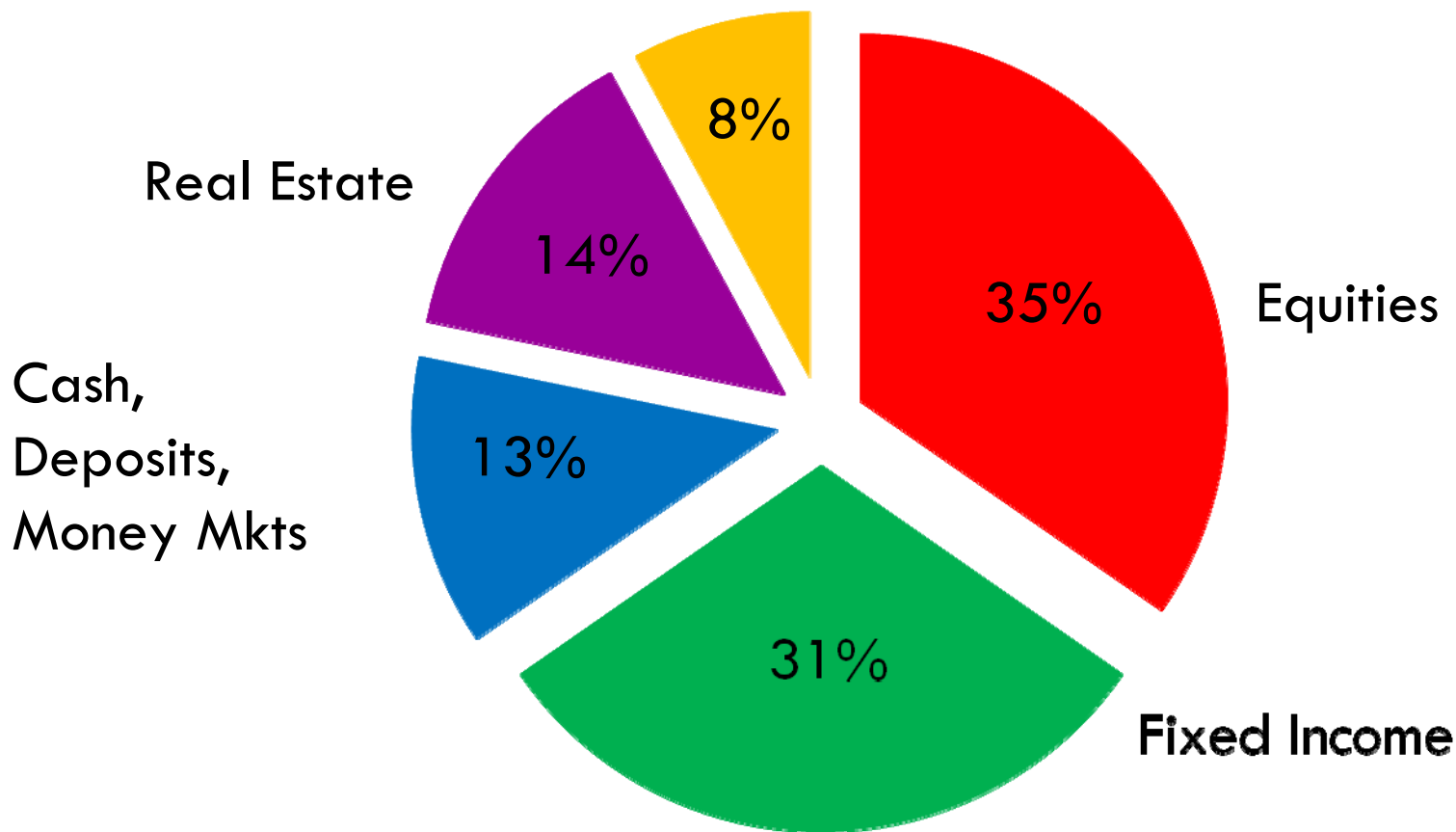
	Number of Households (U.S.)	Family Net Worth*
Approx. 7% of U.S. Households	8.4 mil	> \$1.0 mil
Approx. 1% of U.S. Households	1.1 mil	> \$5.0 mil

* Excludes primary residence

Where Do High Net Worth Individuals Invest?

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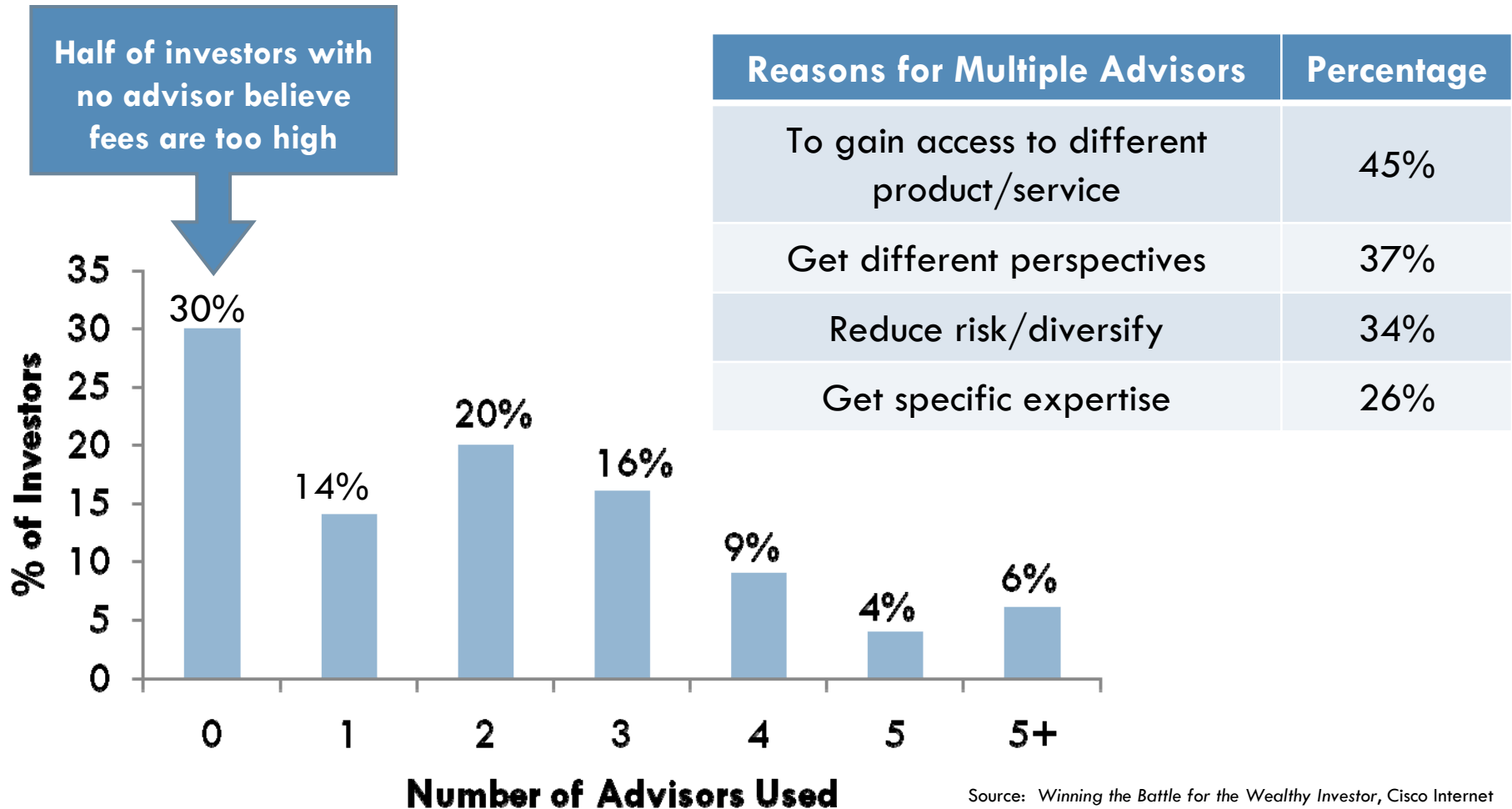
Alternatives (hedge funds, commodities, venture capital, private equity)



Source: Cap Gemini/Merrill Lynch Financial Advisor Survey, 2010

How Many Advisory/Management Firms Do Wealthy Investors Use? And Why?

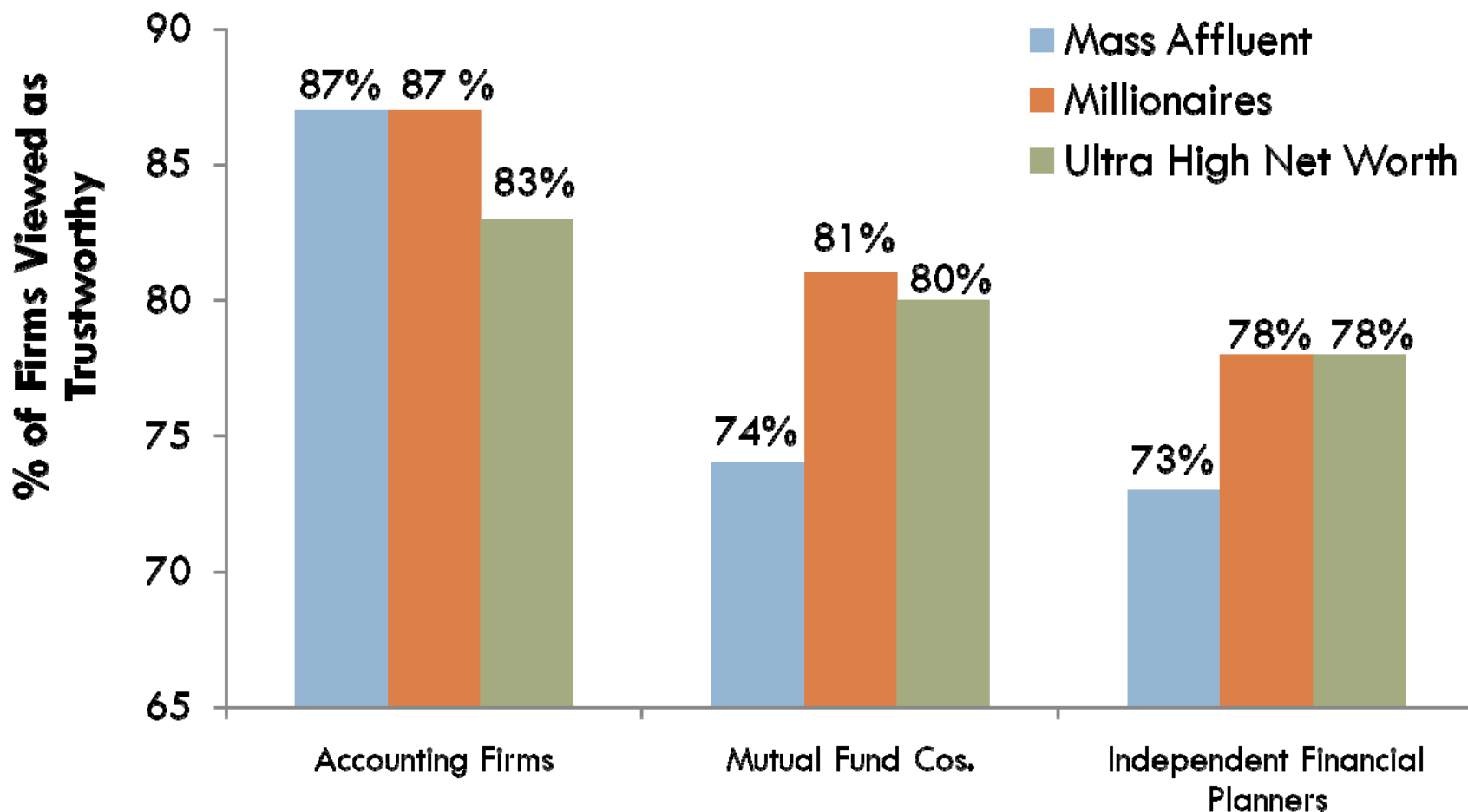
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Source: *Winning the Battle for the Wealthy Investor*, Cisco Internet Business Solution Group, January 2011

Which Financial “Advisors” are Viewed as Most Trustworthy?

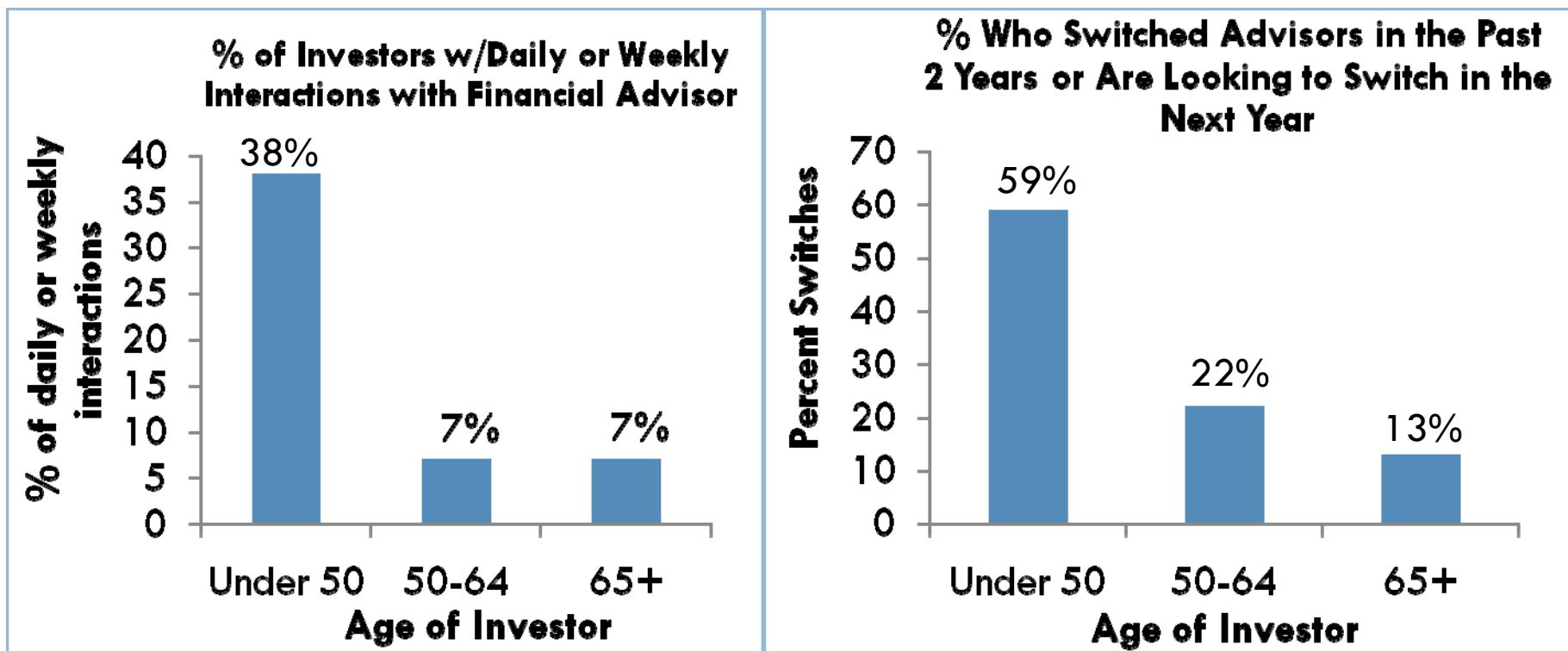
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Source: Spectrem Group, March 2011

Next Generation Investors Expect More Interaction With, and Are Less Loyal, to Their Advisor

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Social media has to be in the advisor's toolbox to accommodate NextGen investors' expectations.

Source: *Winning the Battle for the Wealthy Investor*, Cisco Internet Business Solution Group, January 2011

Connecting With Potential Clients

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Information Sources for Investors Shopping for Advisors

Ask Friends, Relatives, Associates	42%
Banks, Brokers, Other Financial Services Providers	38%
Financial Advisor, Lawyer, Accountant	29%
Internet	28%
Solicitation in the mail	22%
Magazines, newspaper, TV	18%
Making phone calls	18%

- Social media will increase this
- } → Has to improve for the financial advisory industry to succeed
- Social media will increase this
- Surprisingly high!
- Surprisingly low!

% Time Spent Looking for Investment Advisor

None or Almost None	25%
Moderate Amount	55%
A Great Deal	20%

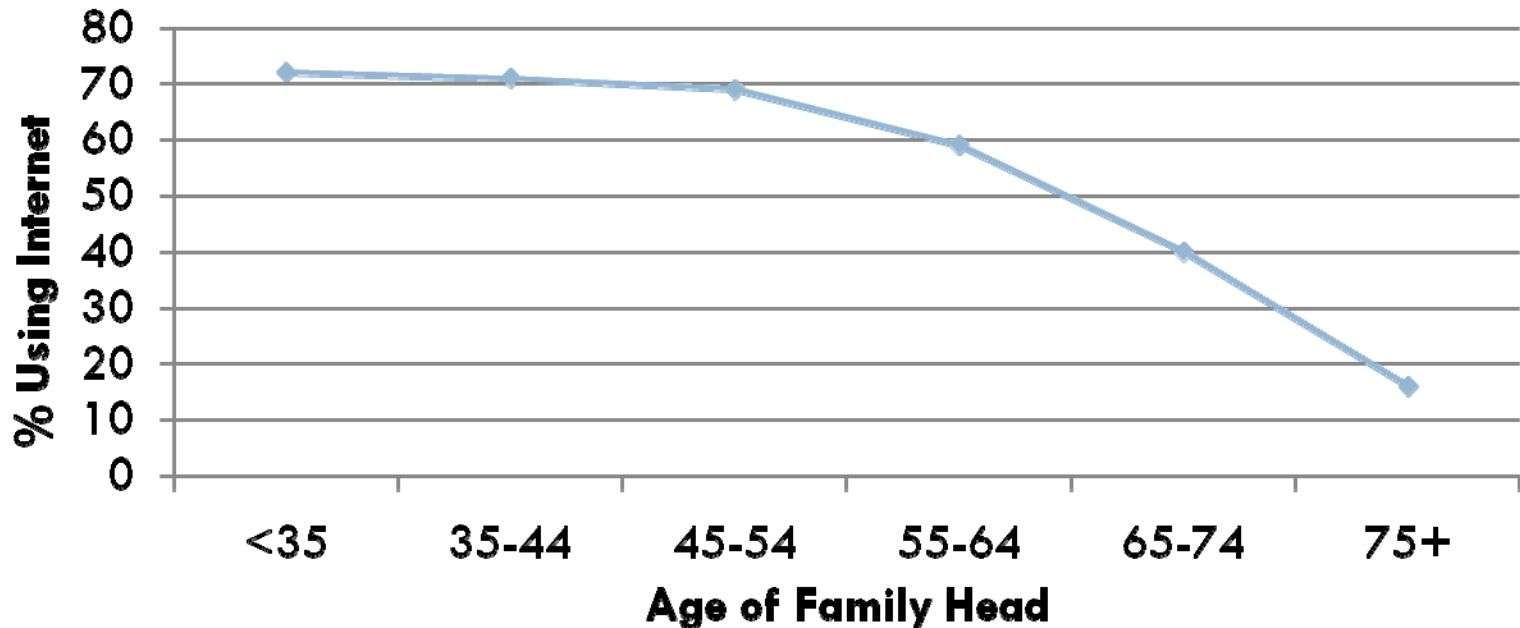
- } → How do investment managers/advisors connect with these people?
- Do advisors stand out?

Source: Federal Reserve, 2007 Survey of Consumer Finance. February 2009.

The Internet is a Necessary Tool For Advisors to Reach NextGen Investors

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Gets Financial Information from Internet, By Age



In 2001, 33% of investors used the internet for financial information. By 2007, it was 60%. Today it is undoubtedly higher.

Source: Federal Reserve, 2007 Survey of Consumer Finance, February 2009

Hedge Funds- Recent Trends

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- Hedge Funds hit Record \$2.0 trillion in Q1 2011 (global)
- Q1 2011 Global Net Inflows- Largest Since Q2 2008

Hedge Funds Have Grown Rapidly

Year End	# Hedge Funds (Global)	AUM (Global)
2010	9,572	\$2.0 tril
2008	9,284	1.3 tril
2005	8,900	1.2 tril
2000	4,800	408 bil
1995	2,800	97 bil
1991	880	35 bil

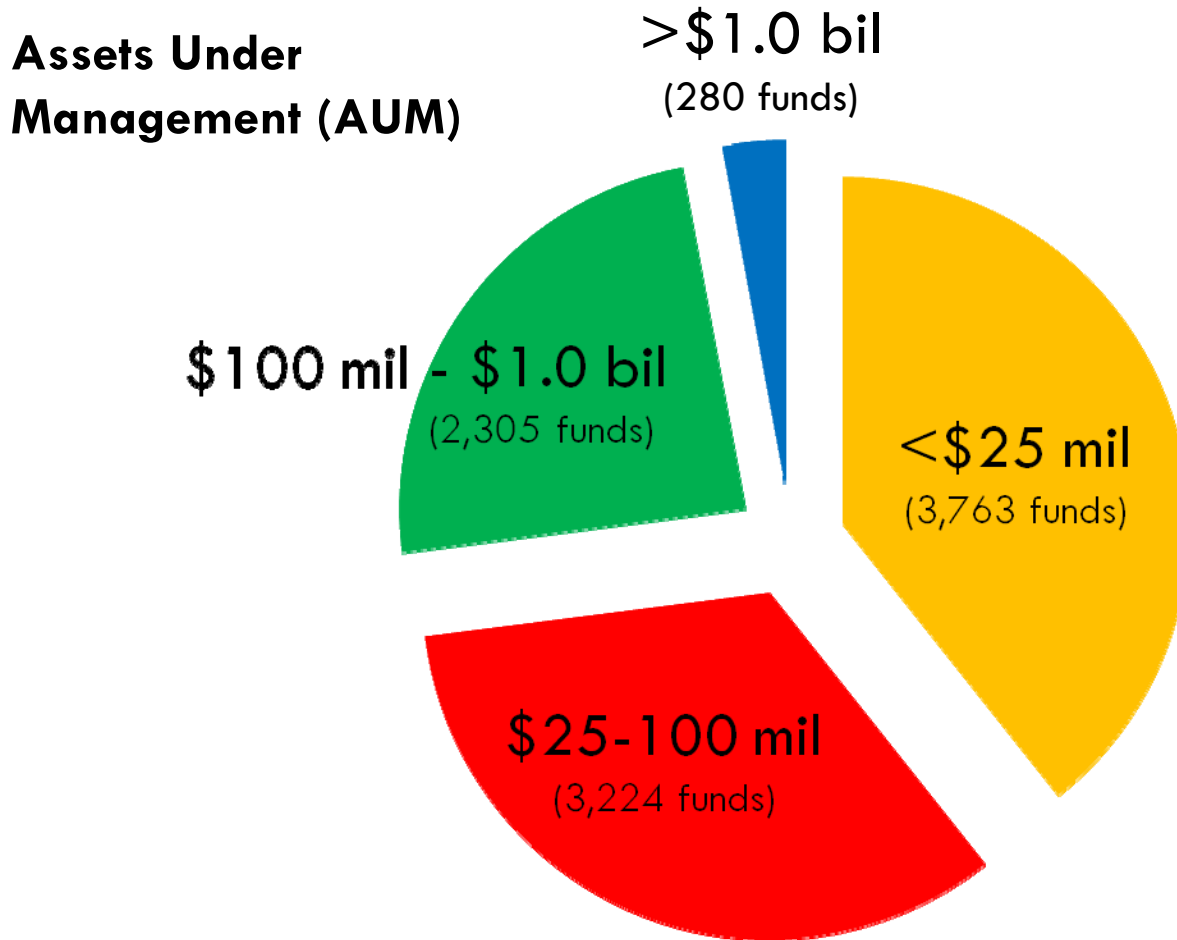
→ 1,184 Hedge Funds launched in 2010!

→ 1,471 Hedge Funds liquidated in 2008!

- Fund of Funds have been hurt by Madoff scandal

Distribution of Hedge Funds by AUM

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The Top 100 Largest Hedge Funds Control \$1.2 trillion

60% of Total Hedge Fund AUM

Mutual Fund/ETF Trends

ETF Usage Growing Quickly.....

% of Advisors Using:	2006	2008	2009	2010	2011
Mutual Funds	85%	81%	86%	88%	86%
Individual Stocks	66%	69%	46%	49%	49%
Individual Bonds	60%	53%	51%	52%	48%
ETF's	40%	44%	72%	72%	77%

But Mutual Funds Still Dominate

	AUM	2010 Net Inflow
ETF's	\$1.0 tril	+ \$120 bil
Mutual Funds	\$5.8 tril	+ \$244 bil

Top 5 Asset Types Used By Advisors	
% of AUM:	2011
Mutual Funds- Non-wrap	35%
Mutual Funds- Wrap	16%
ETF's	11%
Individual Stocks	9%
Cash and Cash Equivalents	7%

Source: 2011 Trends in Investing Whitepaper, FPA Research Center, June 2011

ETFs Are Growing Rapidly

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ETFs	
Year	AUM
1993	\$464 <u>mil</u>
1997	\$6.2 <u>bil</u>
2003	\$155 <u>bil</u>
2011	\$1.06 <u>tril</u>

ETFs Average 32% of Daily Volume on U.S. Stock Markets!!

There are 1,139 ETFs in the U.S. (3/31/11)

International Exposure for U.S. Investors

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U.S. Investors are Underweighted in International Equities
Even Though They Have Increased Total \$ Exposure

	AUM	% of Underlying Market Size
International Stock Mutual Funds	\$1.4 tril	4%
U.S. Stock Market Mutual Funds	\$3.7 tril	21%

Shameless Plug for PL Capital!!

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Our Shareholder Activist Strategy has Produced Higher Returns with Lower Volatility

Since inception (1996 to Present)	Total Return	Annualized Total Return	Volatility (Standard Deviation)
Financial Edge Fund/PL Capital	+ 334%	+ 10.1%	14%
SNL Bank and Thrift Index	+ 119%	+ 5.3%	20%
S&P 500 Index	+ 183%	+ 7.1%	16%

Most Active Activist Investors

January 1, 2011 – June 1, 2011

1. **Bulldog Investors** – 9 Companies Targeted
(Investment Focus: Closed-End Funds)
2. **Joseph Stillwell** – 8 Companies
(Investment Focus: Thrifts/Banks)
3. **Discovery Capital** – 7 Companies Targeted
4. **Financial Edge/PL Capital** – 6 Companies
(Investment Focus: Thrifts/Banks)
5. **Carl Icahn** – 5 Companies Targeted
6. **Starboard Value** – 4 Companies Targeted
(Formerly Ramius Capital)
7. **Western Investment** – 4 Companies
(Investment Focus: Closed-End Funds)
8. **Elliott Advisors** – 3 Companies
9. **Lawrence Seldman** – 3 Companies
10. **Norman Pessin** – 3 Companies

Icahn has a few more '000's in AUM than we do!!

Sources: PL Capital, LLC; Hedge Fund Solution LLC., 2011 Mid-Year Shareholder Activism Update, June 2011

Final Scary Thought

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- The unfunded net present value of Medicare, Medicaid, government and military pensions, social security, etc. EXCEEDS our entire collective U.S. household net worth
- Baby boomers will also need to draw down their own financial assets to fund their own retirement needs
- What will this do to the financial advisory and management business?