

Viability Study:

Exchange Traded Structured Products.
Exchange Traded Strategies.

Winter 2013

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SECTION 1: INTRODUCTION & METHODOLOGY

OVERVIEW

- Investigation conducted exclusively for ETS and Wealth Management.
- Methodology, data collection and analysis by Penton Research, the research arm of Penton Media, parent company of Wealth Management.
- Data collected January 10, 2013, through February 18, 2013.
- Methodology conforms to accepted marketing research methods, practices and procedures.

OBJECTIVES

- Investigate the familiarity with and use of Exchange Traded Products and Structured Products.
- Determine the interest level of a new product that offers qualities found in both ETFs and Structured Products.
- Compare two positioning strategies for the new product and determine which is most effective to engage advisor interest.
- Obtain key demographics of advisors.

METHODOLOGY

- On January 10, 2013, Penton Research emailed invitations to participate in an online survey to members of the Wealth Management database.
- By February 18, 2013, Penton Research received 449 completed surveys. Of those, 371 met pre-determined qualifications. The data presented in the report is based on qualified respondents who answered each question.

RESPONSE MOTIVATION

- To encourage prompt response and increase the response rate overall, the following marketing research techniques were used:
 - A drawing was held for three \$100 American Express gift cards.
 - A live link was included in the e-mail invitation to route respondents directly to the online survey.
 - Reminder emails were sent to non-respondents on January 16 and February 14, 2013.

SECTION 2:

KEY FINDINGS

- A variety of firm types are represented in the sample, including wirehouse/national firms (35%), independent broker/dealers (25%), and RIAs (22%).
- Respondents have been with their current firm an average 10.0 years. Respondents who had been with their firm less than one year were not qualified to answer the survey.
- Respondents have an average \$212.9 million in investable assets. Only respondents with \$50 million or more in investable assets (\$75 million among wirehouse advisors) qualified to answer the survey.
- The largest portion of income is from fees (51%), followed by commissions (38%). Income structure varies by channel, as those from RIA firms have a higher average percentage of income from fees (68%), while those from regional and independent firms have a higher percentage of income from commissions (52% and 48%, respectively).
- Respondents are likely to be at least somewhat familiar with Structured Products. In fact, 44% are extremely or very familiar.
- The majority of respondents indicate their firm provides access to Structured Products. Wirehouses are most likely to provide access at 94%, while only 43% of RIAs provide access to Structured Products.
- Structured Products are not widely used among advisors. The majority of advisors who currently have access to Structured Products only offer to some clients, or when the clients specifically request them. Those who currently do not have access would offer only to some clients or upon clients' request if the product were made available.
- On average, 10% of clients have purchased a Structured Product in the last 24 months. Advisors indicate that an average 6% of total assets under management are in the form of Structured Products.
- Advisors are most likely to point to the complex nature of Structured Products as a deterrent to offering them to clients. A lack of client interest, lack of trust/transparency and illiquidity are also cited as reasons for not offering the product. Thirty percent of advisors prefer to focus on actively managed solutions.
- Improvements to the platform for Structured Products would lead to increased sales. In particular, improved liquidity, increase transparency, lower fees and lower risks would result in an increase in sales.
- Respondents are likely to be very or extremely familiar with ETFs. In fact, a majority of respondents from wirehouses (55%) and RIAs (65%) are extremely familiar with ETFs.

SECTION 2:

KEY FINDINGS

- ETF compensation is primarily fee-based, particularly among wirehouse, independent and RIA respondents. Nearly half of regional advisors are compensated for ETFs through a commission structure, however, this group has a higher level of commission in general (52%, compared to 38% for the entire audience).
- ETF usage is more prevalent than the use of Structured Products. An average 27% of clients have purchased an ETF in the past 24 months. Overall, an average 16% of AUM is held in the form of an ETF. RIA respondents have the highest use of ETFs, with an average 40% of clients purchasing an ETF in the past year. Nearly one-fourth of assets under management are in the form of an ETF for this group.
- Respondents have similar interest in learning about the new product, whether it is positioned as Exchange Traded Structured Products or Exchange Traded Strategies. Respondents from independent firms are most likely to be interested in learning more about the product positioned as an ETSP, while RIA respondents are most interested in the ETS positioning.
- Respondents have similar interest in selling the new product, whether it is positioned as Exchange Traded Structured Products or Exchange Traded Strategies. Independent advisors are most likely interested in selling the new product.
- The liquidity and easy access to sophisticated products are the most compelling aspects of the new product. As the “Exchange Traded Strategy” description specifically mentions maturity timeframes, the “liquidity” aspect is not as compelling. Increased liquidity and transparency are most likely to result in increase sales of Structured Products.
- Respondents are likely to be interested in selling the “Exchange Traded Structured Product” relative to Structured Products currently available. The interest in “Exchange Traded Strategies” is not as strong relative to currently offered ETFs, likely a result of the popularity and use of ETFs.
- Respondent interest is more likely to be piqued when the compensation for the ETSP product is aligned with that to ETFs than the ETS product. However, the interest in the ETS offering was higher initially than that for the ETSP offering.
- For both the ETSP positioning and the ETS positioning, interest is higher if the issuer is a major existing ETF issuer
- Across all channels, respondents are more likely to be interested in a new product issued by a major existing firm. Wirehouse respondents are most likely willing to sell an Exchange Traded Structure Product offered by a new company founded by industry professionals.
- The majority of respondents believe their firm would be at least somewhat interested in distributing the new product based on both positioning descriptions. In fact, the positioning used does not significantly change the expected firm interest.

SECTION 3: SURVEY RESPONSES

3.1 Channel

A variety of firm types are represented in the sample, including wirehouse/national firms (35%), independent broker/dealers (25%), and RIAs (22%).

Which of the following best describes your firm?

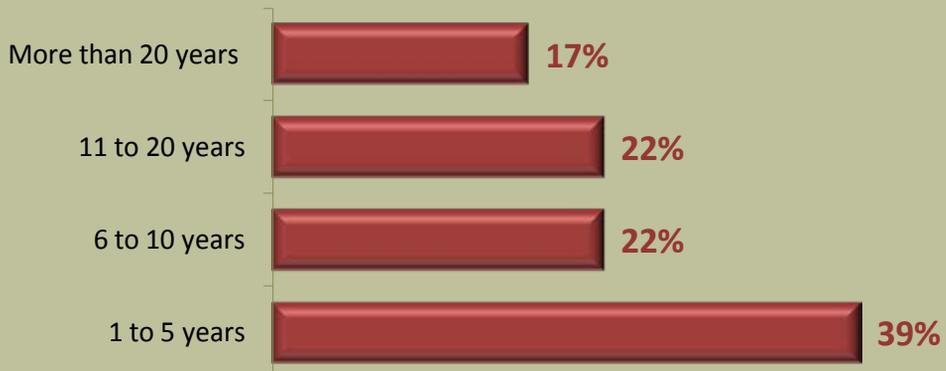


Base: n=368.

3.2 Time with current firm

Respondents have been with their current firm an average 10.0 years. Respondents who had been with their firm less than one year were not qualified to answer the survey.

How long have you been with your current firm?



Base: n=368.

3.3 AUM and income sources

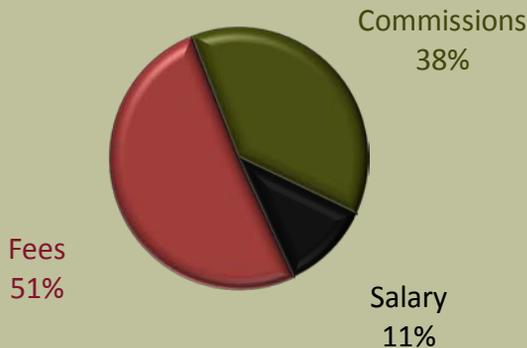
Respondents have an average \$212.9 million in investable assets. Only respondents with \$50 million or more in investable assets (\$75 million among wirehouse advisors) qualified to answer the survey. The largest portion of income is from fees (51%), followed by commissions (38%). Income structure varies by channel, as those from RIA firms have a higher average percentage of income from fees (68%), while those from regional and independent firms have a higher percentage of income from commissions (52% and 48%, respectively).

How much in investable assets does your team manage (or you alone if you are a solo practitioner)?
(Average AUM for each channel is presented below)



Base: n=368.

Approximately what percentage of your income comes from each of the following sources?

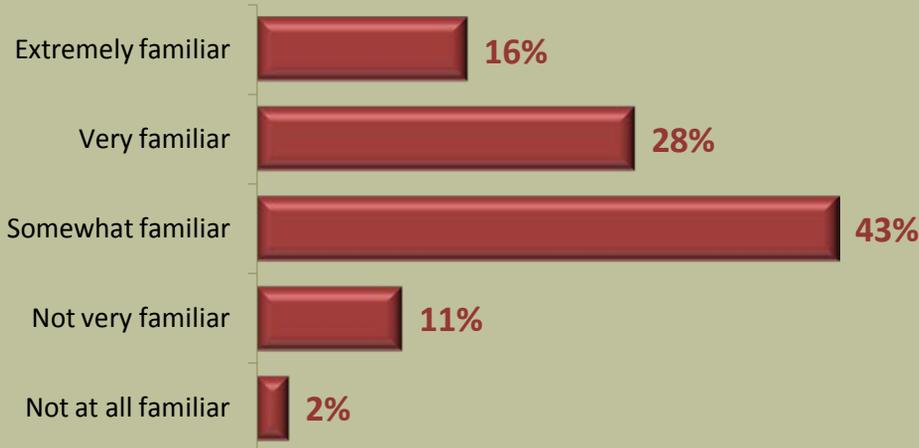


Base: n=365.

3.4 Familiarity with Structured Products

Respondents are likely to be at least somewhat familiar with Structured Products. In fact, 44% are extremely or very familiar.

How familiar are you with Structured Products?

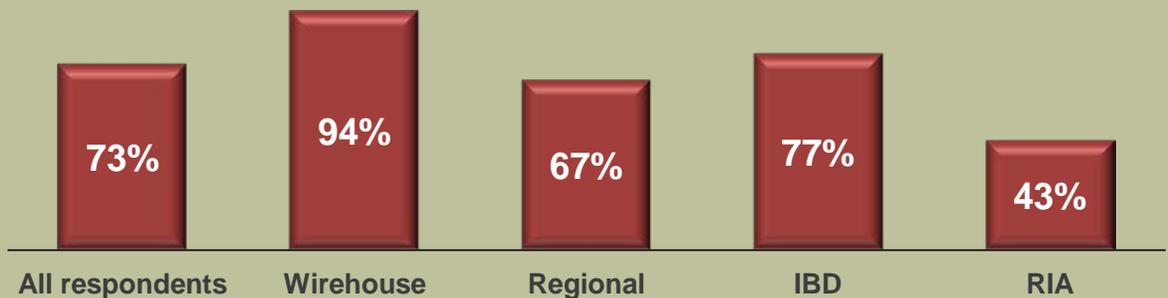


Base: n=371.

3.5 Structured Products offering

The majority of respondents indicate their firm provides access to Structured Products. Wirehouses are most likely to provide access at 94%, while only 43% of RIAs provide access to Structured Products.

Does your current firm provide access to Structured Products (either issued in-house or issued by a 3rd party) you can offer your clients?
(Percent indicating “yes” are presented for each channel.)



Base: n=371.

3.6 Use of Structured Products

Structured Products are not widely used among advisors. The majority of advisors who currently have access to Structured Products only offer to some clients, or when the clients specifically request them. Those who currently do not have access would offer only to some clients or upon clients' request if the product were made available.

Which of the following best describes your approach to offering Structured Products to your clients?



Base: n=270.

If your firm were to provide access to Structured Products, which of the following would best describes your approach to offering them to your clients?



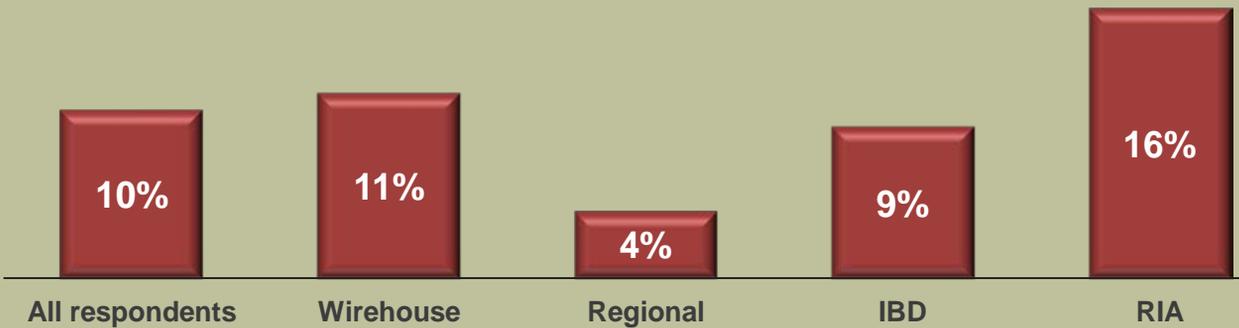
Base: n=99

3.7 Use of Structured Products (...continued)

On average, 10% of clients have purchased a Structured Product in the last 24 months. Advisors indicate that an average 6% of total assets under management are in the form of Structured Products.

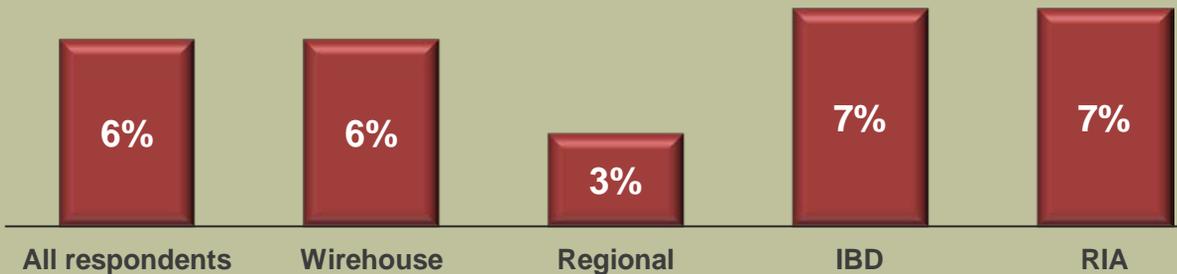
Approximately what percentage of your client base has purchased a Structured Product through you in the last 24 months?

(Average for each channel is presented below)



Base: n=239.

Approximately what percentage of your total assets under management is held in the form of Structured Products?
(Average for each channel is presented below)

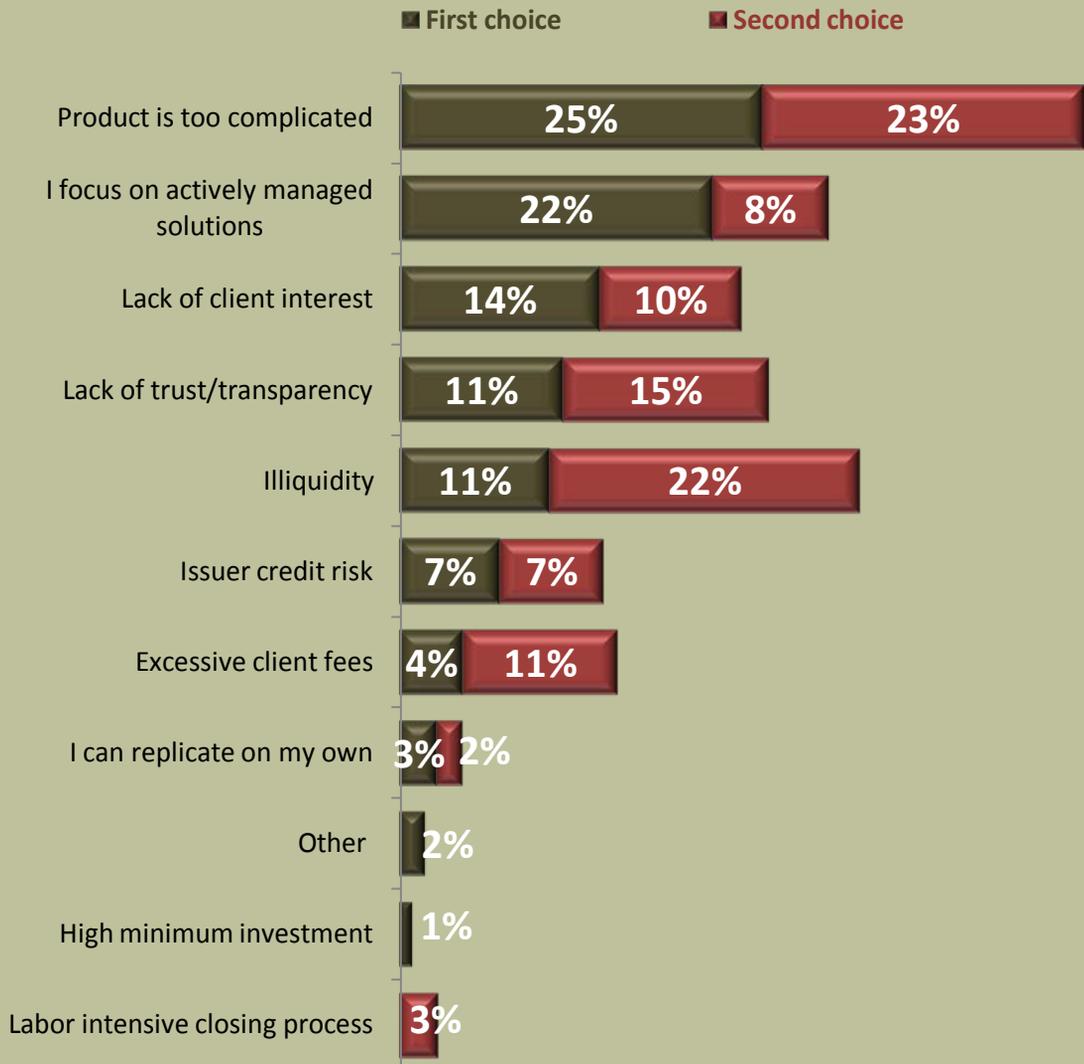


Base: n=238.

3.8 Structured Products challenges

Advisors are most likely to point to the complex nature of Structured Products as a deterrent to offering them to clients. A lack of client interest, lack of trust/transparency and illiquidity are also cited as reasons for not offering the product. Thirty percent of advisors prefer to focus on actively managed solutions.

What are the most important reasons you do not proactively offer Structured Products to your clients?

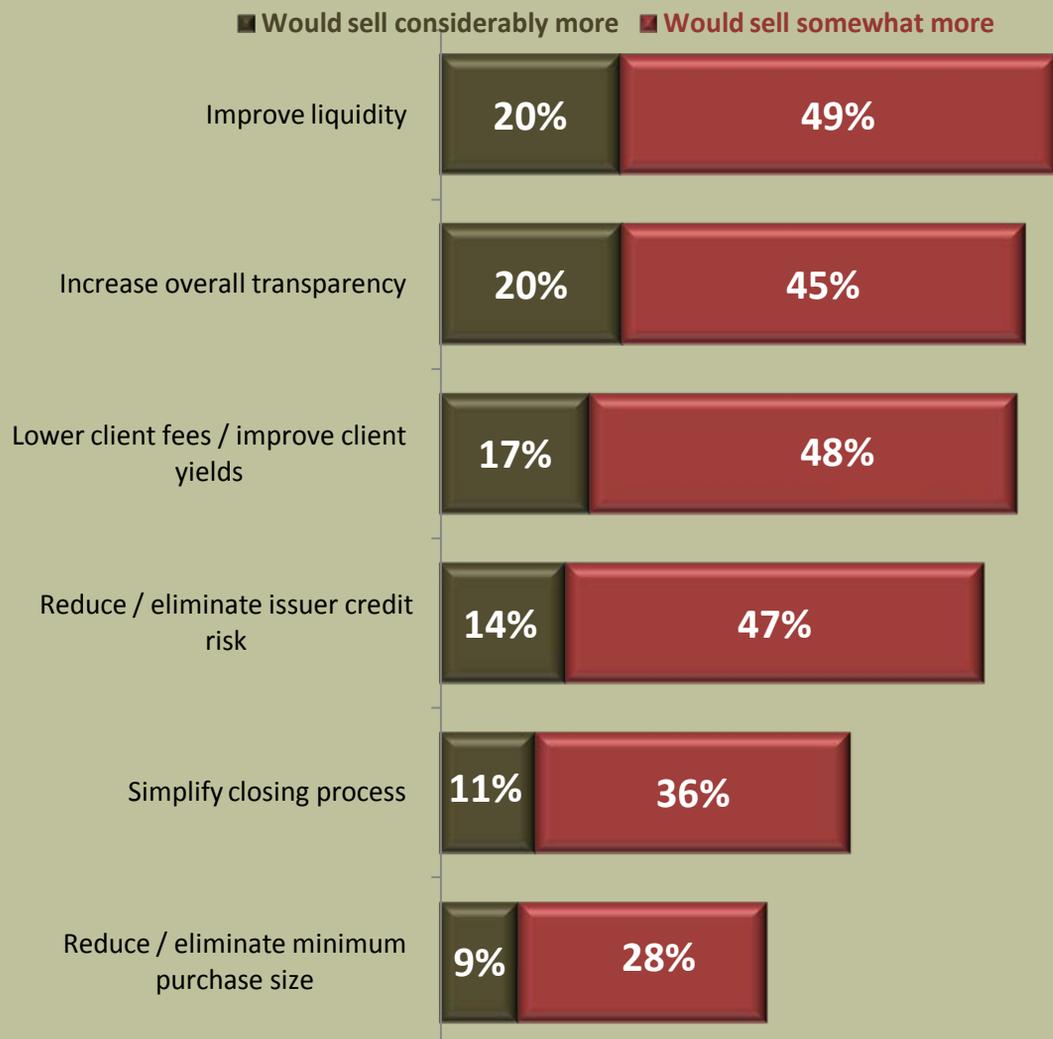


Base: n=114.

3.9 Desired improvements to Structured Products

Improvements to the platform for Structured Products would lead to increased sales. In particular, improved liquidity, increase transparency, lower fees and lower risks would result in an increase in sales.

How much more Structured Product would you sell if the following changes were made to the Structured Products platform at your firm?

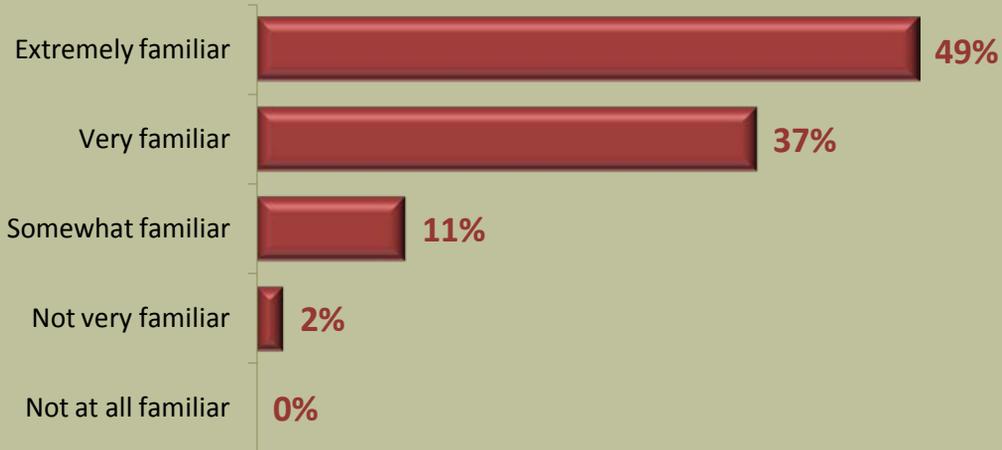


Base: n varies by row, from 260 to 263.

3.10 Familiarity with ETFs

Respondents are likely to be very or extremely familiar with ETFs. In fact, a majority of respondents from wirehouses (55%) and RIAs (65%) are extremely familiar with ETFs.

How familiar are you with Exchange Traded Funds (“ETFs”)?

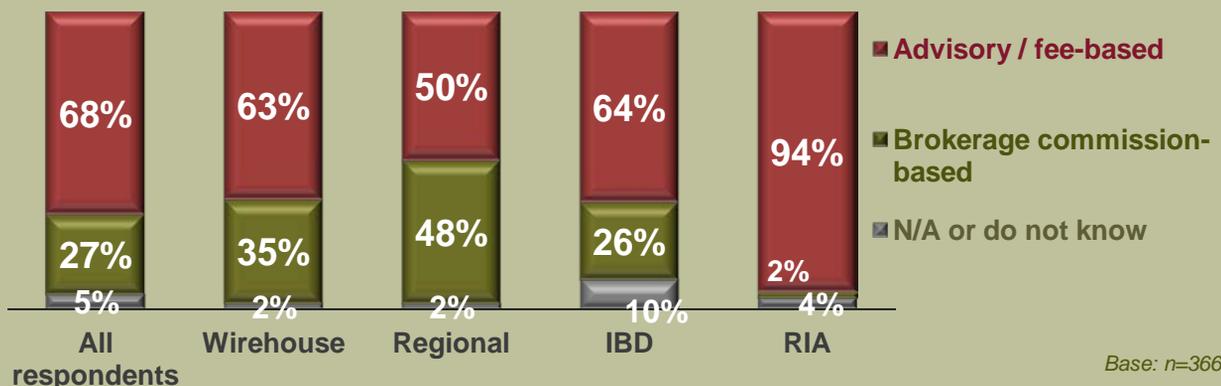


Base: n=368.

3.11 ETF compensation

ETF compensation is primarily fee-based, particularly among wirehouse, independent and RIA respondents. Nearly half of regional advisors are compensated for ETFs through a commission structure, however, this group has a higher level of commission in general (52%, compared to 38% for the entire audience).

How are you typically compensated for your sales of ETFs?



Base: n=366.

3.12 Use of ETFs

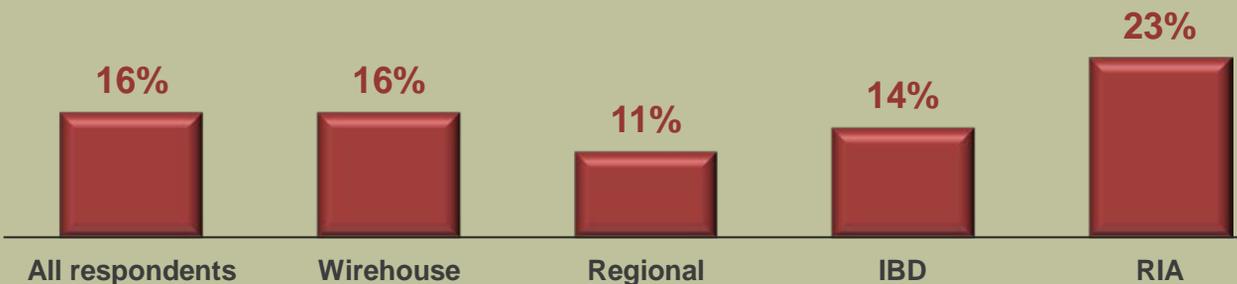
ETF usage is more prevalent than the use of Structured Products. An average 27% of clients have purchased an ETF in the past 24 months. Overall, an average 16% of AUM is held in the form of an ETF. RIA respondents have the highest use of ETFs, with an average 40% of clients purchasing an ETF in the past year. Nearly one-fourth of assets under management are in the form of an ETF for this group.

Approximately what percentage of your client base has purchased an ETF through you in the last 24 months?
(Average for each channel is presented below)



Base: n=367.

Approximately what percentage of your total assets under management is held in the form of an ETF?
(Average for each channel is presented below)

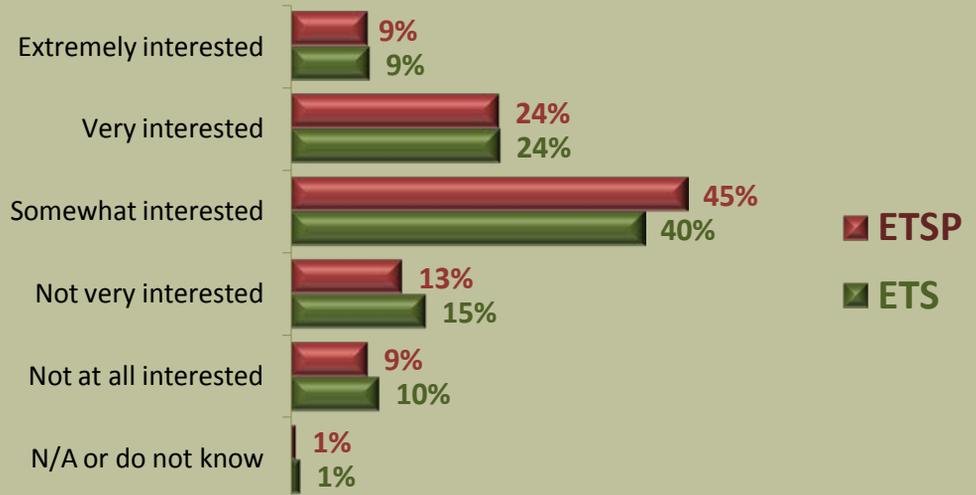


Base: n=365.

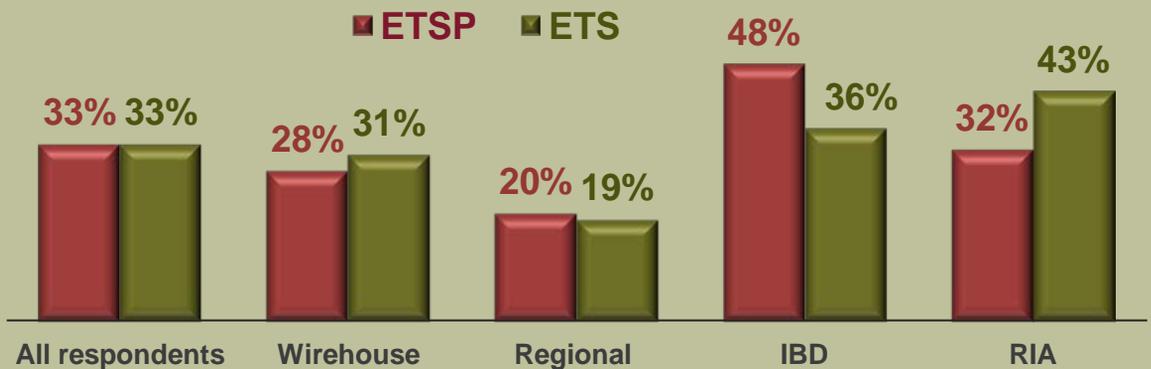
3.13 Interest in learning more about proposed product

Respondents have similar interest in learning about the new product, whether it is positioned as Exchange Traded Structured Products or Exchange Traded Strategies. Respondents from independent firms are most likely to be interested in learning more about the product positioned as an ETSP, while RIA respondents are most interested in the ETS positioning.

What is your overall interest in learning more about Exchange Traded Structured Products/Exchange Traded Strategies?



Percent indicating “extremely” or “very” interested presented by channel.

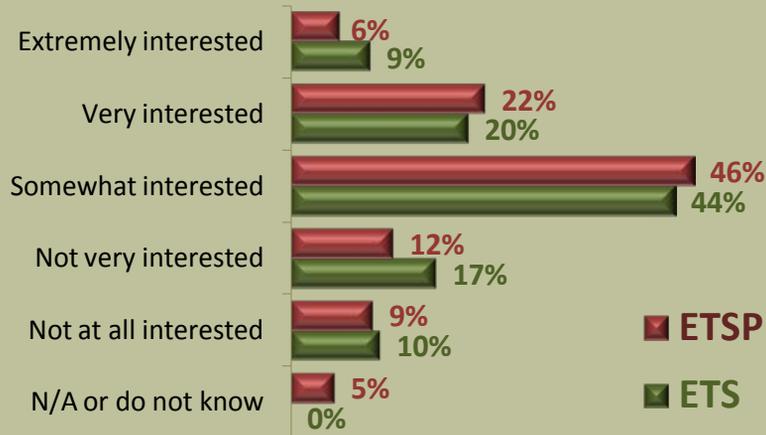


Base for both charts: n=181 (ETSP) and 188 (ETS).

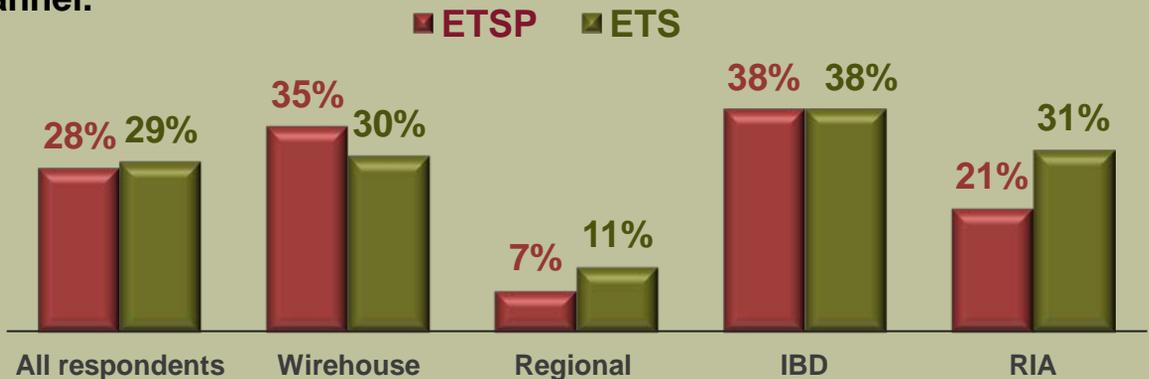
3.14 Interest in selling proposed product

Respondents have similar interest in selling the new product, whether it is positioned as Exchange Traded Structured Products or Exchange Traded Strategies. Independent advisors are most likely interested in selling the new product.

From the limited information presented to you, what is your overall interest in selling Exchange Traded Structured Products/Exchange Traded Strategies?



Percent indicating “extremely” or “very” interested presented by channel.

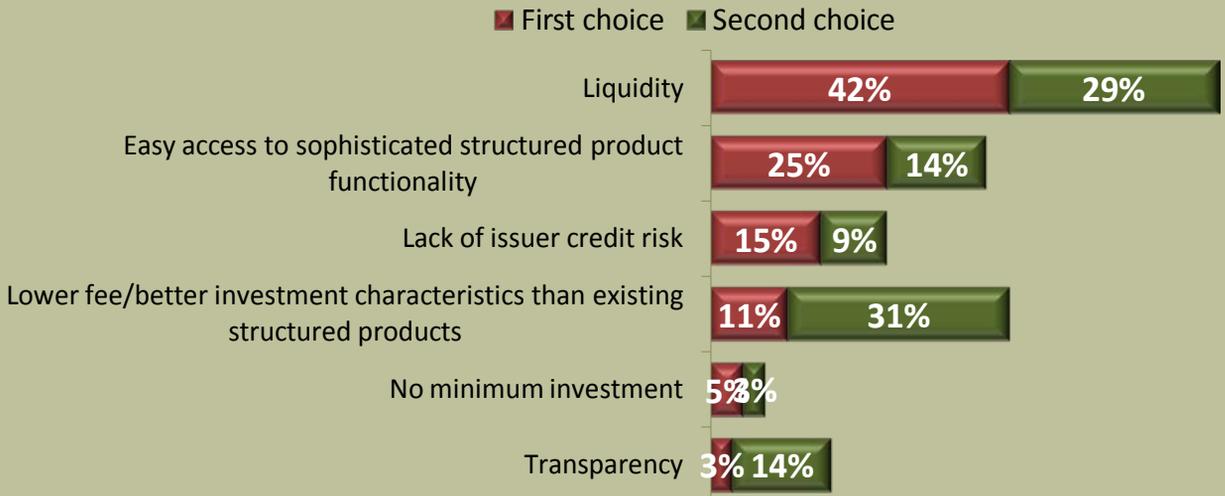


Base for both charts: n=180 (ETSP) and 187 (ETS).

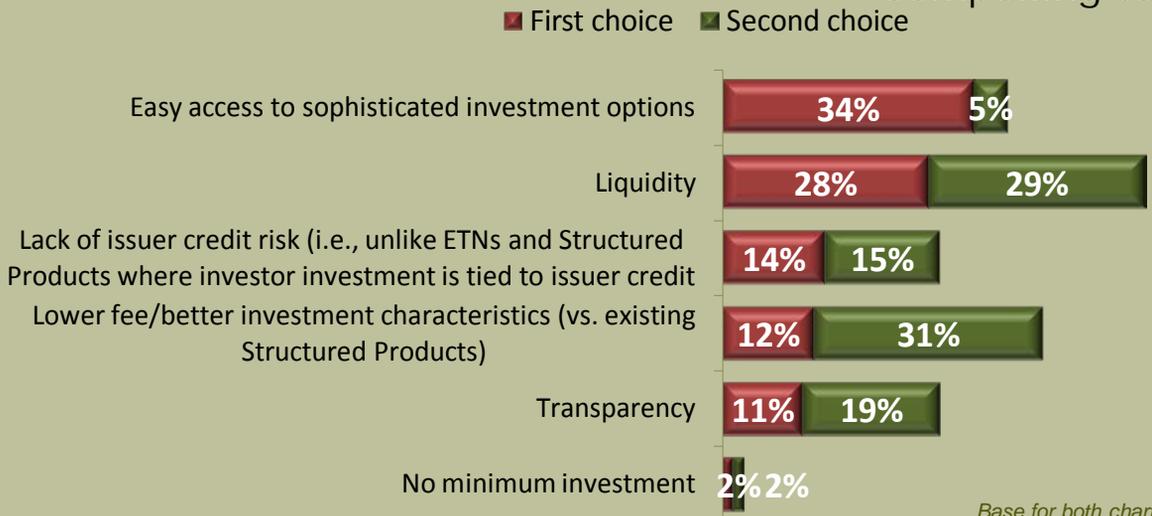
3.15 Most compelling aspects of new product

The liquidity and easy access to sophisticated products are the most compelling aspects of the new product. As the “Exchange Traded Strategy” description specifically mentions maturity timeframes, the “liquidity” aspect is not as compelling. As mentioned on slide 12, increased liquidity and transparency are most likely to result in increase sales of Structured Products.

What about Exchange Traded Structured Products seems most compelling to you?



What about Exchange Traded Strategies seems most compelling to you?

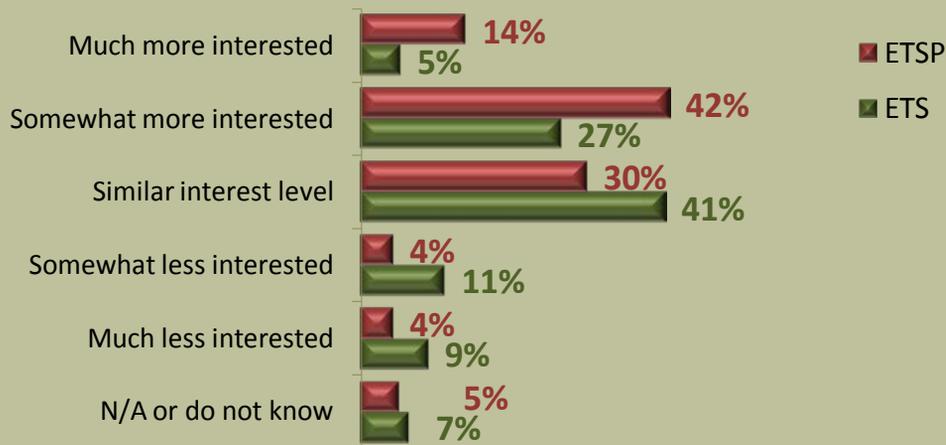


Base for both charts: n=65.

3.16 Relative interest in new product

Respondents are likely to be interested in selling the “Exchange Traded Structured Product” relative to Structured Products currently available. The interest in “Exchange Traded Strategies” is not as strong relative to currently offered ETFs, likely a result of the popularity and use of ETFs.

From the limited information presented to you, what is your overall interest in selling Exchange Traded Structured Products/Exchange Traded Strategies relative to the current Structured Products/ETFs available to you today?



Percent indicating “much” or “somewhat” more interested presented by channel.

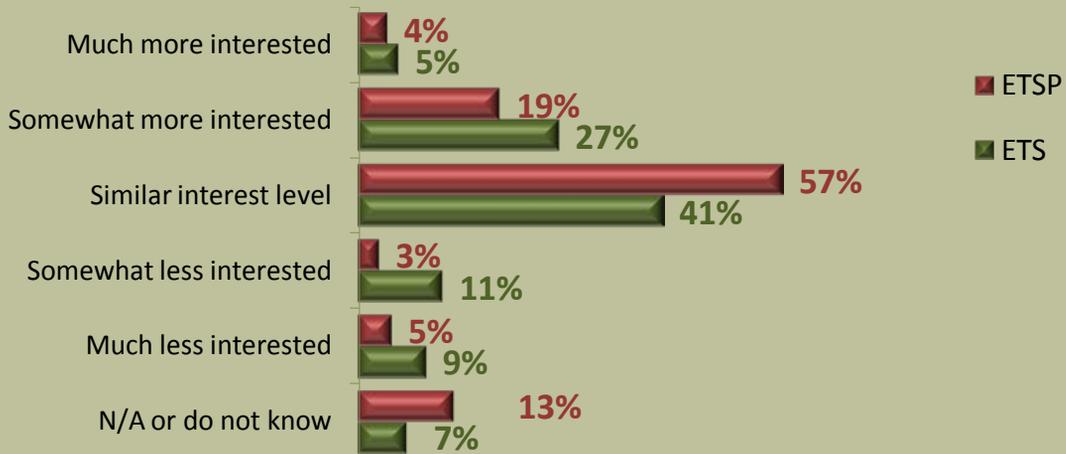


Base for both charts: n=135 (ETSP) and 186 (ETS).

3.17 Change in product offering interest as a result of compensation strategy

Respondent interest is more likely to be piqued when the compensation for the ETSP product is aligned with that to ETFs than the ETS product. However, the interest in the ETS offering was higher initially than that for the ETSP offering.

If your compensation for distributing Exchange Traded Structured Products/Exchange Traded Strategies was similar to your current ETF compensation, how would that affect your overall interest in selling?



Percent indicating “much” or “somewhat” more interested presented by channel.

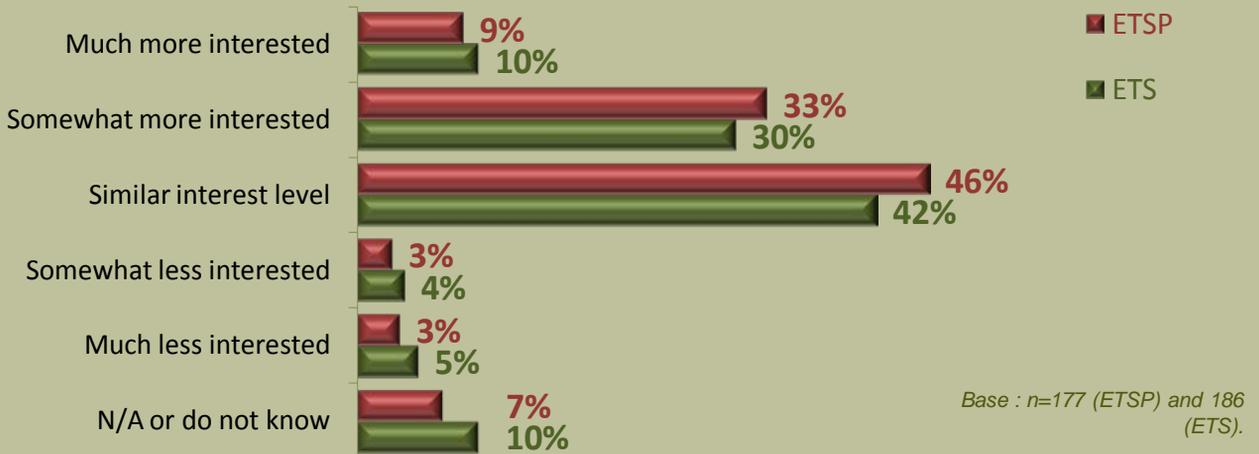


Base for both charts: n=179 (ETSP) and 188 (ETS).

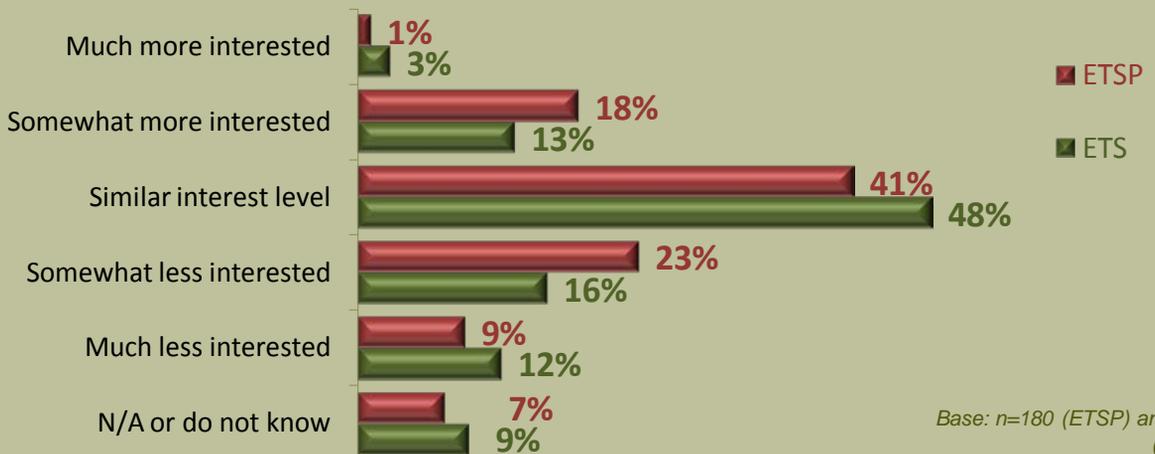
3.18 Importance of issuer

For both the ETSP positioning and the ETS positioning, interest is higher if the issuer is a major existing ETF issuer

If the issuer for Exchange Traded Structured Products is a major existing Exchange Traded Fund issuer, how would that affect your overall interest in selling?



If the issuer for Exchange Traded Strategies is a new company founded by industry professionals, how would that affect your overall interest in selling?



3.19 Importance of issuer by channel

Across all channels, respondents are more likely to be interested in a new product issued by a major existing firm. Wirehouse respondents are most likely willing to sell an Exchange Traded Structure Product offered by a new company founded by industry professionals.

If the issuer for Exchange Traded Structured Products/ Exchange Traded Strategies is a major existing Exchange Traded Fund issuer, how would that affect your overall interest in selling? **Percent indicating “much” or “somewhat” more interested presented by channel.**



Base : n=177 (ETSP) and 186 (ETS).

If the issuer for Exchange Traded Structured Products/ Exchange Traded Strategies is a new company founded by industry professionals, how would that affect your overall interest in selling? **Percent indicating “much” or “somewhat” more interested presented by channel.**

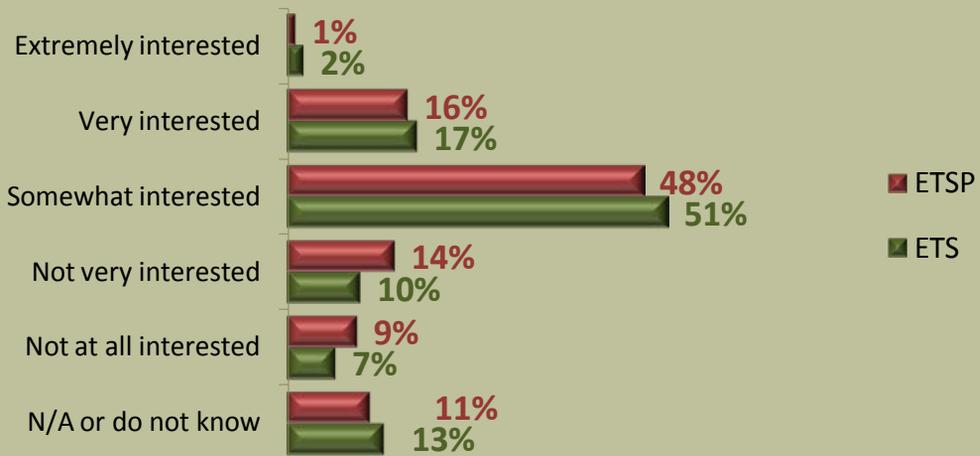


Base: n=180 (ETSP) and 185 (ETS).

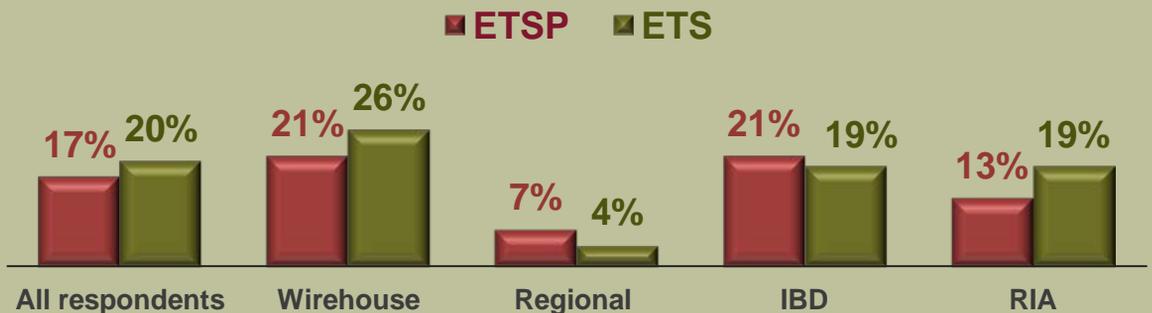
3.20 Predicted firm interest in new product

The majority of respondents believe their firm would be at least somewhat interested in distributing the new product based on both positioning descriptions. In fact, the positioning used does not significantly change the expected firm interest.

From the limited information presented to you, what do you think your firm's overall interest in distributing Exchange Traded Structured Products/Exchange Traded Strategies would be?



Percent indicating “extremely” or “very” interested presented by channel.



Base: all respondents; (n=405).

WRITE-IN RESPONSES

Which of the following best describes your firm? Other responses:

Bank	Institutional money manager
Deutsche Bank AWM	Insurance 403B
Hybrid RIA with B/D affiliation	Life insurance and annuity sales and service

Please specify the broker dealer with which you are affiliated.

Aegis capital	Interactive Brokers
American Portfolios – 2 mentions	Invest Financial Corp but soon to be Girard Securities
Ameriprise – 6 mentions	Janney Montgomery Scott – 3 mentions
Avant-Garde Advisors LLC	jeffrey matthews financial group llc
Baird	JPM – 2 mentions
Berthel Fisher	Kovitz Securities
Cadaret Grant	LeafHouse Financial Advisors, LLC
Cambridge Investment Research – 3 mentions	Legend Equities
CapFinancial Partners, LLC (dba CAPTRUST)	LFA
Capital Investment Group	Lincoln Financial – 3 mentions
Capstan Financial Consulting Group	LPL – 4 mentions
Centaurus Financial, Inc.	LPL Financial – 4 mentions
Centennial Securites LLC	Merrill Lynch – 24 mentions
Cetera – 4 mentions	Mid America
Cetera Adviser Networks – 4 mentions	Monte Marti
Cetera Financial Specialists	Morgan Stanley – 50 mentions
Charles Schwab – 4 mentions	Morgan Stanley Smith Barney – 4 mentions
Commonwealth Advisors, Inc.	Morgan Stanley Wealth Management
Commonwealth Financial Network	N/A – 5 mentions
D A Davidson & Co	National Planning
Edward Jones – 24 mentions	New England Financial
Ensemble Financial – 2 mentions	Next
Fidelity – 2 mentions	NEXT Financial
Fidelity and Schwab	NFP Securities, Inc.
Fidelity for RIA custody; PKS for B/D	None – 13 mentions
Fifth Third	None we are independent RIA
Financial Network Investment Corp--Cetera	NPB Financial Group LLC
FINET	Oppenheimer & Co Inc – 5 mentions
Fintegra	Pershing – 2 mentions
First Allied – 3 mentions	Pershing, Charles Schwab and TD Ameritrade
First Financial Equity Corp.	PFS Investments – 2 mentions
Gates Capital Corporation	Pinnacle Financial Partners
Gbs financial corp	Pinnacle Investments
Geneos	Puritan Brokerage Services
Girard Securities	Quest Capital Strategies, Inc.
GuideStone	RAMIREZ & CO INC
H. Beck, Inc.	Raymond James – 17 mentions
Hazard & Siegel	Raymond James & Associates – 3 mentions
Hennion & Walsh, Inc	Raymond James Financial Services, Inc. – 8 mentions
Hickman Asset Management, LLC	Raymond James Morgan Keegan
Hilliard Lyons	
Integrity Investments, Inc	

WRITE-IN RESPONSES

Please specify the broker dealer with which you are affiliated. (...continued)

A RBC Wealth Management – 5 mentions	TFA
Resource horizons	The Capital Advisory Group
Robert W Baird & Co – 3 mentions	The Investment Center
Royal Alliance	Tradestation Securities
SagePoint – 2 mentions	Transamerica
Sammons Securities	UBS – 3 mentions
Schwab	VALIC
Schwab and Fidelity	VSR Financial Services, Inc. – 2 mentions
Securities America – 3 mentions	Walnut Street Securities
Several	Wedbush Securities – 3 mentions
SII	Wells Fargo Advisors – 49 mentions
ssn	Wells Fargo Advisors Financial Network – 2 mentions
Stifel Nicolaus – 10 mentions	Westbourne Investments
Stephens Inc.	Western intl
Summit	WFADV
Sunbelt Securities	WFG – 2 mentions
TD Ameritrade – 2 mentions	Winslow Evans & Crocker - Pershing
TD Ameritrade and Charles Schwab	Wunderlich Securities
TD Ameritrade Institutional – 2 mentions	Ziegler Wealth Management – 2 mentions
TD Ameritrade, Fidelity, & Schwab	

Prefer not to answer – 58 mentions

What are the most important reasons you do not proactively offer Structured Products to your clients? Other responses:

Corporation doesn't like them

Counterparty risk

WRITE-IN RESPONSES

Why do you have little interest in selling Exchange Traded Structured Products?

Because our entire focus and process revolves around mutual funds.

Can't be all things to all people and would find it dilutive of my time and efforts

Client base is not sophisticated enough.

Complex products always for the seller, not the consumer

Don't like products

Don't need them

Don't think it is in the client's best interest in most cases.

I am happy with the open end funds that we are currently using.

I don't believe in re-inventing the wheel to sell something. Most things clients ask for never quite do as they are supposed to do.

I think the complexity and lack of transparency will make this hard for clients to understand.

I'm very content with our current investment strategy. I believe it is one that will be difficult to improve upon, particularly with a new product.

My client base is all public fund investors restricted to specific fixed income types.

No reason

No transparency, trust, need, don't like complicated products.

Not familiar

Not my model. ETFs are trading vehicles that usually trade at a discount to NAV.

Show me where the value is to the client
Structured products are gimmicks and a fad that won't be around in a few years

These products are created to provide benefits to the creators and sales people and none to the investor. They ought to be illegal.

They are complex and they cost too much.

Simply a vehicle to increase payouts.

They seldom work as promised

They seldom work to the clients benefit.

Think they are just another product to confuse the client

Too complicated to understand the risk involved. It's not until they "unwind" that you get a real sense of the risk you are taking.

Too complicated. Concern about fees.

We are an institutional firm and our clients are large and would generally not buy these types of products from us. We specialize in liquidity products and alternatives, primarily real estate.

We serve mainly seniors who are not interested in such products.

We're interested in partnerships with active managers

Would be complicated, confusing and expensive

WRITE-IN RESPONSES

Why do you have little interest in selling Exchange Traded Strategies?

As I said we do not sell products to our clients we are fee based
Claim there is little or no issuer risk. How?
Do not like any gimmicks or packaged products
Do not like derivative securities. The more moving parts the more can go wrong.
ETF's only work well in certain areas/allocation. Funds stocks and bonds still work in most cases.
Firm isn't a big fan
Generally, clients don't really understand the workings of structured products.
Guaranteed to underperform the index after fees
High fees
I don't utilize a lot trading strategies. I invest
I have my own strategies
I like simple investments that both my clients & I can understand.
I prefer active management
I prefer to know the business of the companies that I invest in
I pursue clients who are investors and understand the importance of asset allocation, volatility and patience. Structured products are high cost gimmicks that diminish long-term investor returns...I would prefer clients buy them from someone else.
I'm from the old school and ready to retire in couple years, and not interested in trying to bring something new to older long time clients.
I'm just not comfortable with the product
It is does not fit in our Firm's investment strategy.
It's not part of my business model
Like active management of funds.

My book is structured in CEF. I do not currently use ETF/ETS. I have only recently considered ETF to hedge against interest rates.
NA
New products are challenging for my client base.
Not convinced they are sound, low cost investments appropriate for my clients.
Not our investment focus
Not using many ETFs today; more mutual funds
Prefer individual stocks
Seems to layer more complexity and, potentially, more fees on top of an existing product that is simple, inexpensive, and already meets my needs
Skeptical
Still struggling with what are the counterparty risks.
Structured or Leveraged ETF's don't appeal to me because of the complexity of the structure. It's too difficult to understand, much less explaining it to a client. It seems to me that I would have to explain this over and over again during the holding period. Straight up, simple indexed ETF are better for my clients and practice.
There are too many other investment products that perform very well without fixed maturities.
They do not fit in my overall client strategy.
We feel ETFs have become the "next hot investment", Therefore, we take a more cautious approach.
We only sell proprietary products.
We primarily buy individual securities
We use proprietary funds exclusively