A Profile of the U.S. Investment Advisory Profession

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Investment Counsel Association of America

National Regulatory Services

Investment Counsel Association of America
1050 17th Street NW, Suite 725
Washington, D.C. 20036-5503
202.293.4222
Fax 202.293.4223
www.icaa.org

David G. Tittsworth
Executive Director
202.293.4222
david.tittsworth@icaa.org

Karen L. Barr
General Counsel
202.293.4222
karen.barr@icaa.org

National Regulatory Services
A Division of Thomson Media
323A Main Street
PO Box 71
Lakeville, CT 06039
860.435.0200
Fax 860.435.0031
www.nrs-inc.com

Robert Stirling
Senior Consultant
Investment Adviser Services
860.435.2541 ext. 1841
rstirling@nrs-inc.com

Catherine Reynolds
Director of Marketing
860.435.2541 ext. 1862
creynolds@nrs-inc.com

Introduction

The Investment Counsel Association of America and National Regulatory Services are pleased to present our report on the state of the investment adviser profession. This report updates the information we have presented for the last two years using the latest information from the Investment Adviser Registration Depository (IARD). These annual reports provide an opportunity to identify significant trends and developments taking place in the advisory profession.

Our analysis of the 2003 IARD data pertaining to SEC registered entities reveals several key findings:

- The number of entities that had filed Form ADV, Part 1 on the IARD as of April 8, 2003 was 7,852, compared to the 7,581 entities that had filed one year ago. While this represents a slowdown in the annual growth rate reported in 2002, it nonetheless demonstrates relatively robust growth during a difficult economic period.
- For the first time since our first report, total reported assets under management declined - from $22.1 trillion in 2002 to $20.6 trillion in 2003. While discretionary assets under management (AUM) attributable to all SEC-registered investment advisers as of April 8, 2003 fell 8% to $18.128 trillion from $19.7 trillion in 2002, total non-discretionary assets under management continued to increase slightly from $2.354 trillion in 2002 to $2.502 trillion in 2003.
- Tracking assets of the firms that have been registered with the SEC since 2001 demonstrates an increase in the number of firms reporting fewer assets under management. For example, 50% of the firms tracked since 2001 reported shrinking assets from 2002 to 2003 versus only 42% from 2001 to 2002. We suspect that the decrease is attributable to a combination of factors: falling stock prices, investors moving their assets out of the securities markets, and possibly higher unemployment numbers resulting in reduced inflows into retirement savings plans, such as 401(k)s.
- The vast majority of entities that filed on the IARD as of April 8, 2003 (6,524 or 83%) selected AUM of more than $25 million as the basis for SEC registration. However, there are a significant number of entities that claim SEC registration as an investment adviser based on some other criteria, including 311 internationally based advisers.
- The percentage of SEC-registered investment advisers reporting no disciplinary history has continued to increase. In 2001, 81% of all registered advisers reported no disciplinary history. Last year, 82% of all registered advisers reported no disciplinary history; this year, 82.5%.
- The number of advisers that provide advice to hedge funds or other pooled investment vehicles has risen significantly. The number of these advisers rose more than 8% from 1,619 in 2002 to 1,762 in 2003. The percentage of registered advisers providing advice to pooled vehicles has risen steadily from 20.7% in 2001 to 21.3% in 2002 to 22.4% in 2003.
- Advisers are quite segmented in client diversity. 53% of advisers have little or no retail clientele. Approximately 25% of advisers have no individual clients at all – either retail or high net worth. On the other end of the spectrum, about 11% of firms have no institutional clients.

The ICAA and NRS are pleased to present this joint report on the state of the investment adviser profession. We welcome any thoughts or observations that augment or challenge any of our findings.

Universe of SEC-Registered Investment Advisers

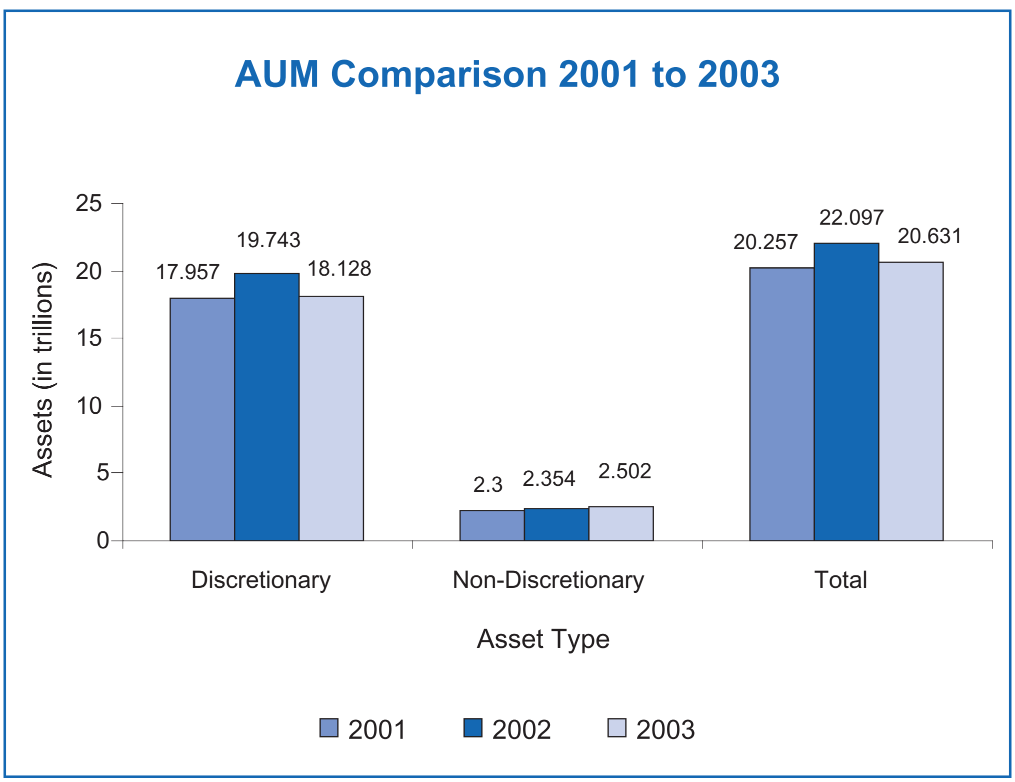
Under the National Securities Markets Improvement Act of 1996, investment advisers that manage less than $25 million in assets under management (AUM) are generally regulated by the states whereas investment advisers that manage in excess of $25 million are regulated by the SEC.[1] SEC-registered advisers are *required* to register with the SEC by filing Form ADV, Part 1A via the Investment Adviser Registration Depository (IARD). State-registered advisers may be permitted to utilize the IARD for state registration purposes, but are not uniformly required to do so.[2] This report is based on IARD data as of April 8, 2003. Because the vast majority of investment advisers operate on a calendar year basis,[3] and because SEC regulations require advisers to update Form ADV within 90 days after the end of the fiscal year, the report is intended to reflect the most recent data available.

As of April 8, 2003, 7,852 entities were registered with the SEC as investment advisers. This marks an increase of 3.6% during the past year, up from 7,581 one year ago. While this represents relatively robust growth given the current state of the economy and markets, it is half of the annual growth rate that we reported last year (7.2%).

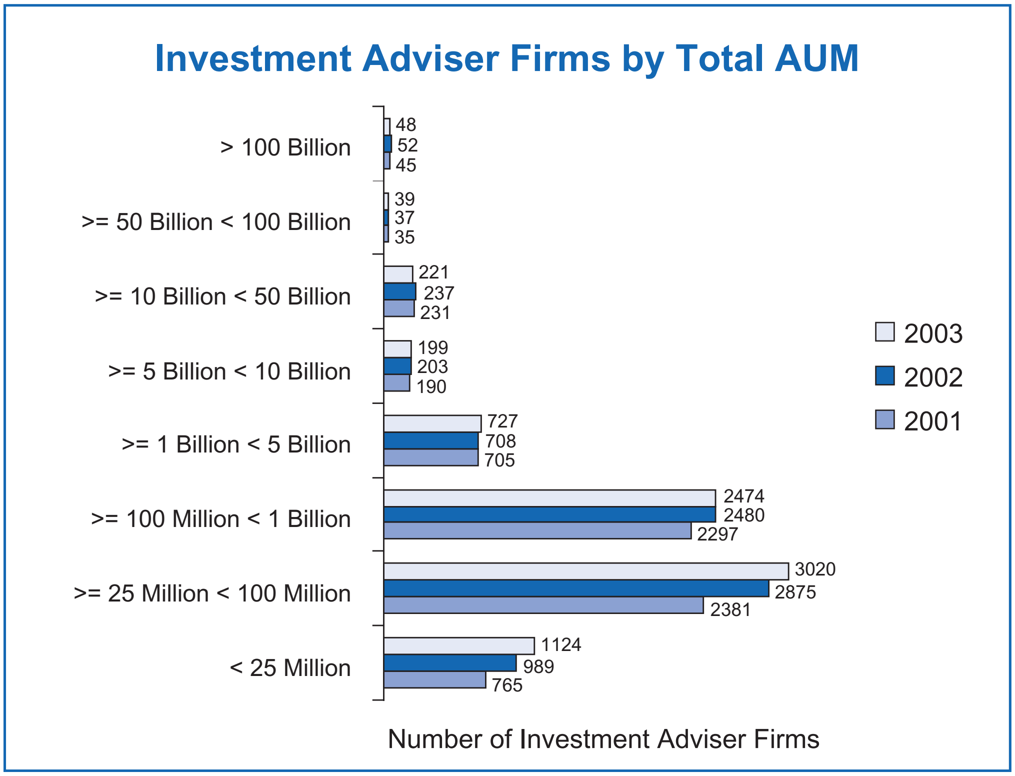
Assets Under Management

Given the state of the economy and the extended bear market, it is no surprise to find that total assets under management decreased, from $22.1 trillion in 2002 to $20.6 trillion in 2003. [4]

Assets held in discretionary accounts fell an aggregate of 8%, from $19.743 trillion in 2002 to $18.128 trillion in 2003.[5] This decline occurred despite a 3.6% increase in the total number of SEC-registered investment advisers. Although data required by Form ADV does not allow us to measure or confirm our assumptions, we suspect that the decline was attributable to a combination of falling stock prices, investors moving their assets out of the securities markets, and perhaps even reduced inflows to retirement plans resulting from higher unemployment levels.



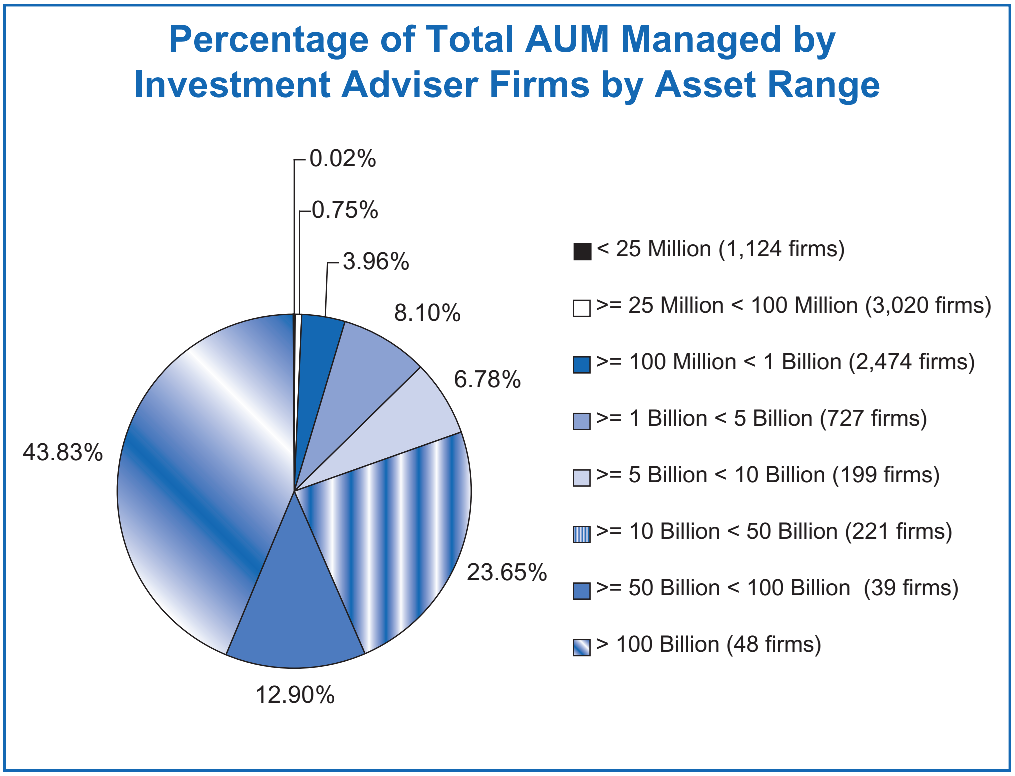
What is surprising is that the amount of assets under non-discretionary management continued its gradual increase from $2.3 trillion in 2001 to $2.354 trillion in 2002 to $2.502 trillion in 2003. The fact that these assets continued to increase at a time when discretionary assets were declining



may indicate a small but significant shift to non-discretionary management by investors.

Of firms that filed Form ADV for both 2002 and 2003, 2,324 (33%) reported growth in their managed assets, 3,539 (50%) reported shrinkage of their managed assets, and 1,197 (17%) reported no change at all (perhaps suggesting that these advisers did not perform the detailed calculations required by the SEC).

Consistent with our previous reports, a few large firms continue to dominate in terms of assets under management. 274 firms reported managing over $10 billion in discretionary assets in 2003 (down from 284 in 2002). These firms collectively accounted for $14.659 trillion in discretionary assets in 2003 (down from $16.255 trillion in 2002), which only slightly decreased their market share from 82% in 2002 to a still hefty 80% in 2003. The largest firms experienced the most dramatic decrease in discretionary assets: the aggregate discretionary assets managed by firms with more than $100 billion under management decreased by 14% from $9.25 trillion in 2002 to $7.96 trillion in 2003.

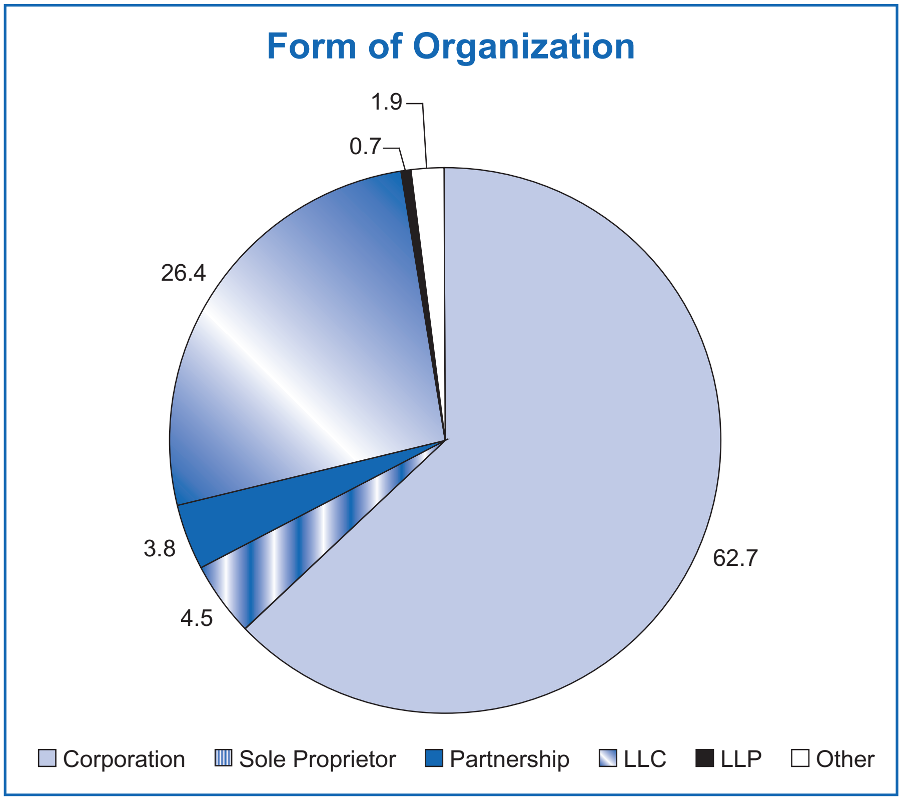


Finally, we note that there are 1,124 entities that reported assets of less than $25 million under management, an increase of 12% over last year.[6] Of these firms, 664 claimed to have no managed assets; most of these firms are presumably pension consultants, control affiliates, and newly formed advisers. 148 firms reported that they are now ineligible for SEC registration and will withdraw their registrations. The remaining firms qualify for SEC registration on some basis other than assets under management of $25 million or more.

Characteristics of Investment Advisory Firms

Form of Organization

As shown in the pie chart, the vast majority of investment advisory firms are, as has historically been the case, organized as corporations - 4,927 (63%). However, the number of advisory firms organized as corporations has decreased by 2% since last year. The number of advisory firms organized as limited liability companies has increased by 284 over the same period, reflecting the continuing rise in popularity of this liability and tax-friendly alternative form of business organization. Statistically, 26.5% of all SEC-registered investment advisers are organized as limited liability companies, up almost 3% from last year. The absolute numbers of firms organized as sole proprietors and partnerships have decreased since last year.



International Business

488 (6%) investment advisers report that they are registered with a foreign financial regulatory authority. This percentage level is consistent with data we reviewed in 2001 and 2002.

Employees

The advisory profession continues to be populated principally by small firms. 3,859 (49%) firms reported that they have only one to five employees. 5,299 (67.5%) of all registered investment advisers have ten or fewer employees. On the other end of the spectrum, only 260 (3.3%) investment advisory firms employ more than 250 persons, 98 of which employ more than 1,000 persons.

Perhaps surprising, given the small size of the vast majority of advisers, 59.5% of advisers maintain a firm web site (up from 56.25% last year).

Similar to the past two years, 2.3% of SEC-registered investment advisers reported that none of their employees perform investment advisory functions.[7] 5,093 (65%) firms have one to five employees performing investment advisory functions and 1,176 (15%) employ between six and ten advisory personnel. On the other hand, only 47 (.6%) firms have more than 500 employees performing investment advisory functions. 4,508 (57.4%) investment advisers do not employ any individuals who are registered representatives of a broker-dealer; 2,078 (26.5%) employ between one and five registered representatives. Out of 74 (less than 1%) firms that employ more than 500 registered representatives, only 59 are dually registered, that is, the firm is registered with the SEC both as an investment adviser and a broker-dealer.

Employees of Investment Adviser Firms

Number of Employees	# of IA Firms containing "x" number of employees	# of IA Firms whose employees perform investment advisory functions	# of IA Firms that have "x" number of whose employees that are registered representatives of a broker-dealer
0		179	4,508
1 to 5	3,859	5,093	2,078
6 to 10	1,440	1,176	468
11 to 50	1,742	1,044	504
51 to 250	551	260	177
251 to 500	91	53	43
501 to 1,000	71	25	35
More than 1,000	98	22	39

Solicitors

The data reveal a broad range of third-party marketing practices by investment advisers: 4,859 (62%) of investment advisory firms do not employ third-party solicitors to acquire advisory clients; 2,431 (31%) investment advisers have between one and five firms or persons soliciting advisory clients on their behalf, representing only a slight percentage decrease from 2002. On the other end of the spectrum, only 21 firms reported that they use more than 250 third-party solicitors.

Advisory Activities

The IARD data reflect that 866 (11%) of investment advisers act as portfolio managers for wrap fee programs and 369 (5%) act as sponsors of wrap fee programs. These are the same percentages that we reported for the past two years. In addition, 194 investment adviser firms reported that they both sponsor wrap fee programs and serve as portfolio managers for such programs. The following chart shows the various types of advisory services provided by SEC-registered advisers.

Investment Advisory Services

Type of Advisory Activity	# of IA Firms providing advisory services
Financial Planning Services	2,733
Portfolio management for individuals and/or small businesses	5,862
Portfolio management for investment companies	1,478
Portfolio management for businesses or institutional clients (other than investment companies)	4,867
Pension consulting services	1,242
Selection of other advisers	1,917
Publication of periodicals or newsletters	583
Security ratings or pricing services	39
Market timing services	245
Other	1,219

Other Business Activities

A total of 62.5% of all advisory firms indicated that they are not actively engaged in any business other than giving investment advice. However, a significant number of registered investment advisers continue to be involved in non-advisory activities: 650 (8.5%) investment advisers are dually registered as broker-dealers; 921 advisers (12%) are also registered representatives of a broker-dealer;[8] 379 (5%) advisers are registered as a futures commission merchant, commodity pool operator or commodity trading adviser; 1,037 (13%) advisers are also insurance brokers or agents; 87 (1%) advisers are either a bank or a separately identifiable department or division of a bank; 1,981 (25%) advisers sell products or provide services other than investment advice to advisory clients.

Financial Services Industry Affiliations

The IARD data reflect that a large number of registered investment advisers have related persons that are engaged in diverse segments of the financial services industry.[9] The year-over-year numbers do not indicate any obvious or dramatic shifts or trends. The percentage of firms with such affiliations increased by approximately one percent in many categories with the increase in firms affiliated with limited partner sponsors increasing by 2%. Approximately one-third of registered advisers are affiliated with broker-dealers and slightly more than a third are linked with other investment advisers.

This year's statistics with regards to investment adviser affiliations with financial services industry entities are as follows:

- 2,640 (34%) are affiliated with broker-dealers
- 1,582 (20%) are affiliated with investment companies
- 2,862 (36%) are affiliated with other investment advisers
- 930 (12%) are affiliated with futures commission merchants, commodity pool operators, or commodity trading advisers
- 1,181 (15%) are affiliated with banks or thrifts
- 702 (9%) are affiliated with accountants or accounting firms
- 440 (6%) are affiliated with lawyers or law firms
- 1,744 (22%) are affiliated with insurance companies or agencies

- 555 (7%) are affiliated with pension consultants
- 492 (6%) are affiliated with real estate firms
- 1,114 (14%) are affiliated with sponsors or syndicators of limited partnerships

More than one-third (39%) of all investment advisers are independent, *i.e.*, they are not affiliated with any other financial industry entity. Of these firms, 2,182 (28% of all firms) are not only independent, but also are not engaged in any business other than providing investment advisory services.

Interestingly, 2,749 (35%) advisers reported that they or their related persons are general partners in an investment-related partnership or manager of an investment-related LLC. This one percent increase from last year may suggest that congressional and regulatory scrutiny of hedge funds has not deterred the continuing growth in investment partnerships in recent years.

Clientele of Investment Advisers

Of the ranges available on Form ADV to select for number of clients, the most prevalent category chosen by advisers was 26-100, reported by 26% of advisers. 733 firms (9%) had more than 500 clients. Of these 733 firms, 274 serve as portfolio managers in wrap fee programs and 107 provide financial planning services to more than 500 clients. Approximately 18% of firms reported having 1-10 clients. While 434 firms reported that they had no advisory clients during the most recently completed fiscal year, 127 of these same firms claimed to have assets under management.[10] Of the firms that reported no clients, 57% are newly formed advisers or advisers that control, are controlled by, or are under common control with SEC-registered advisers with the same place of business.

The following chart depicts the types of clients served by investment advisers. The most notable change in the chart from last year is the sharp rise in the number of advisers that provide advice to hedge funds or other pooled investment vehicles. The number of these firms rose more than 8%, from 1,619 in 2002 to 1,762 in 2003. Remarkably, most of this growth is attributable to firms in which hedge funds constitute more than 75% of their clients. The number of these advisers surged 18%, rising from 416 in 2002 to 508 in 2003. What makes this development especially noteworthy is that hedge fund advisers typically fall under an exemption from SEC registration if they (a) have fewer than 15 clients in a twelve-month period (with a hedge fund typically treated as one client) and (b) do not hold themselves out to the general public. The fact that increasing numbers of these entities are registering as investment advisers is consistent with the growth exhibited by this sector of the advisory business. It also may reflect a bias of institutional clients that prefer to deal with registered entities or it may simply indicate that an increasing number of hedge funds anticipate that scrutiny of the industry by the SEC and Congress may eventually result in registration requirements.[11]

Percentages of Various Client Types

Types of Clients[12]	None	Up to 10%	11-25%	26-50%	51-75%	More than 75%
Individuals (other than high net worth individuals	3,014	1,164	783	1,034	901	956
High net worth individuals	2,159	1,320	1,005	1,273	1,068	1,027
Banking or thrift institutions	7,038	636	76	48	14	40
Investment companies (including mutual funds)	6,345	703	171	146	68	419
Pension and profit sharing plans (other than plan participants)	3,015	2,978	901	500	200	258
Other pooled investment vehicles (e.g. hedge funds)	6,090	816	188	159	91	508
Charitable organizations	4,405	2,870	400	133	24	20
Corporations or other businesses not listed above	3,945	3,070	487	197	57	96
State or municipal government entities	6,691	789	178	105	37	52
Other	7,133	419	108	63	26	103

As was the case last year, 38% of SEC-registered advisers have no retail clients at all.[13] Indeed, by aggregating the "none" and "up to 10%" categories, we find that (just like last year) 53% of these advisers have little or no retail business. Approximately 25% of advisers have no individual clients at all – either retail or high net worth. On the other hand, approximately 11% of advisers indicated that they have no institutional clients.[14]

1,507 firms reported that they provide advice to registered investment companies. This represents 19% of the total number of advisers, down slightly from last year's 20%.

Compensation

The percentages of advisers using different forms of compensation remain virtually unchanged from last year. 94% of all advisers are compensated by a percentage of assets under management (unchanged from 2002). 32% of firms have hourly billing arrangements (31% in 2002), 39% offer fixed fees (37% in 2002), 24% charge performance-based fees (unchanged), and 12% use commissions as compensation for advisory services (unchanged).

Participation Or Interest In Client Transactions

Form ADV, Part 1 requests information about an investment adviser's participation or interest in client transactions. However, because the questions solicit responses regarding the adviser *or any of its related persons*, it is impossible to determine whether the responses apply to the specific entity filing the form or whether it applies to the firm's advisory affiliates and any person under common control with the adviser. The percentages of firms reporting affirmatively regarding proprietary or sales interest in client transactions and investment or brokerage discretion have remained fairly steady or slightly increased compared with 2002 data.

Proprietary Interest in Client Transactions

- 8.5% of advisers or their related persons engage in principal transactions (*i.e.* buying securities from an advisory client or selling securities the adviser owns to a client).
- 72% of advisers or their related persons buy or sell securities they also recommend to clients (personal or proprietary trading).
- 24% recommend securities in which the advisory firm or a related person has an interest.

Sales Interest in Client Transactions

- 9% of advisers or their related persons engage in agency cross transactions.
- 21% recommend securities to clients where the advisory firm or a related person serves as underwriter, partner, or purchaser representative of the issuer.
- 12% recommend securities to clients for which the firm or a related person has any other sales interest (other than commissions as a broker).

Investment or Brokerage Discretion

- 6,670 (85%) investment advisers or related persons have discretionary authority to select securities to be bought or sold for a client's account.
- 6,662 (85%) have discretionary authority to determine the amount of securities to be bought or sold.
- 5,237 (67%) have discretionary authority to select brokers.
- 4,727 (60%) have discretionary authority to determine the commission rates paid to brokers.[15]
- 5,160 (66%) have discretionary authority to determine the broker or dealer that will be used.
- 4,533 (58%) receive research or other products or services other than execution from a broker or third party in connection with securities transactions (*i.e.* soft dollars).
- 3,378 (43%) compensate employees or third parties for client referrals.

Custody

As in years past, most advisers have chosen to not have custody of client funds or securities. A total of 846 advisers (11%) reported that they have custody over clients' cash or bank accounts. A total of 773 advisers (10%) reported that they have custody of clients' securities.

In addition, 1,020 advisers (13%) have related persons who have custody of clients' cash or bank accounts, while 973 advisers (12%) have related persons with custody of clients' securities. 392 of these related persons are registered broker-dealers.

New SEC rules that could change the meaning of "custody" (and change significantly the number of advisers reporting that they have custody) were proposed in 2002; however, final rules have not yet been adopted.[16]

Disciplinary Information

It is difficult to draw meaningful conclusions from the disciplinary information provided in Form ADV, Part 1 for several reasons. The details contained in the disclosure reporting pages have not been made available to us in aggregate form from IARD filings. Also, the information is reported for the advisory firm and its employees, officers, directors, and affiliates for the past ten years, whether or not affiliated with the firm during that time. Thus, the information reported does not necessarily reflect the actions of the firm actually filing the Form ADV. The same disciplinary event at one firm may be reported by multiple separate affiliates.[17] Also, the same disciplinary event may generate affirmative answers to several different questions. It is thus impossible from the current data to discern the number of separate events reported.

Subject to these limitations, we note the following observations:

- 6,490 (82.5%) registered investment advisers reported no disciplinary history at all, up one-half percent from last year.
- 1,362 (17.5%) firms reported at least one answer in the affirmative to the disciplinary questions, either related to them or to an advisory affiliate. Of these firms, 116 advisers reported only pending charges, with no final outcomes.

Consistent with last year, the questions below are those that generated by far the most "yes" responses. However, the absolute number of firms responding affirmatively to these questions has decreased in each of these categories compared with last year's data and has decreased on a percentage basis for each of the last two years. We have been unable to meaningfully determine the cause of this decrease.

- Has any federal, state, or foreign regulatory agency (other than the SEC or CFTC) found you or any advisory affiliate to have been involved in a violation of investment-related regulations or statutes? 618 "yes" responses (7.9% vs. 8.2% in 2002)
- Has any federal, state or foreign regulatory agency (other than the SEC or CFTC) entered an order against you or any advisory affiliate in connection with an investment-related activity? 588 "yes" responses (7.5% vs. 7.9% in 2002)
- Has any self-regulatory organization or commodities exchange found you or any advisory affiliate to have been involved in a violation of its rules? 548 "yes" responses (7% vs. 7.3% in 2002)
- Has the SEC or CFTC found you or any advisory affiliate to have been involved in a violation of SEC or CFTC regulations or statutes? 349 "yes" responses (4.4% vs. 4.9% in 2002)

Basis For SEC Registration

The large majority of advisers (6,524, or 83% of reporting advisers) qualified for SEC registration by virtue of managing more than $25 million in client assets; this figure represents a decrease of 1% from 2002. 1,124 (14%) firms reported less than $25 million under management; the remaining 3% presumably have more than $25 million under management but chose to qualify under a different basis. 1,122 (14%) of firms qualified by being advisers to a registered investment company. 1,328 firms selected more than one basis for SEC registration.

The number of newly formed advisers who register with the SEC - based on the expectation that they will qualify for SEC registration within 120 days of becoming registered - grew from 109 in 2002 to 169 in 2003.[18] As this number may change significantly during the course of a year, however, it may be unwise to attempt to detect a trend here. Similarly, the number of advisers indicating that they are no longer eligible for SEC registration increased by 45% from the same time last year.

Although the SEC adopted regulations in the final months of 2002 to allow advisers who provide services almost exclusively through the Internet to register directly with the SEC, Form ADV had not been amended at the time of this report to reflect this basis for registration.[19] Until the Form ADV is amended, Internet advisers relying on the Internet exemption are required to list the basis of their registration as having received an SEC exemptive order. Because the number of advisers registering based upon an SEC exemptive order grew from 8 in 2002 to 13 in 2003, it is probably safe to assume that Internet advisers account for some of the advisers included in this category.

This year's statistics on advisers' selection for the basis for registration with the SEC are as follows:

- 6,524 selected assets under management of $25 million or more
- 69 selected principal office and place of business in U.S. Virgin Islands or Wyoming
- 311 selected principal office and place of business outside the U.S.
- 1,122 selected adviser to registered investment company
- 5 selected nationally recognized statistical rating organization (NRSRO)
- 306 selected pension consultant
- 450 reported that the investment adviser controls, is controlled by, or is under common control with SEC-registered investment adviser with same principal office and place of business
- 169 selected newly formed adviser expecting to be eligible within 120 days
- 57 selected multi-state adviser
- 13 selected SEC exemptive order
- 148 reported they are no longer eligible for SEC registration

Endnotes

[1] Pursuant to a variety of exemptions, certain types of advisers that do not manage in excess of $25 million are permitted to register with the SEC.

[2] Unfortunately, a number of states have not yet required state-registered investment advisers to use the IARD. We understand that approximately 9,000 of the estimated 15,000 state-registered investment advisers have filed Form ADV, Part 1 via the IARD.

[3] Approximately 88% of all SEC-registered advisers have a December 31 fiscal year-end.

[4] The AUM reported by investment advisers in all three categories (discretionary, non-discretionary, and total) overstates actual AUM because more than one investment adviser can “claim” the same AUM. For example, an adviser that allocates assets among mutual funds on a discretionary basis will report a subset of the same assets that the advisers to these funds report. Similarly, a sub-adviser to a fund may count the same AUM as the primary manager of the fund.

[5] Advisers managing more than $100 billion reported discretionary AUM of $9.249 trillion in 2002 and $7.964 trillion in 2003. Advisers managing $50 - 100 billion reported discretionary AUM of $2.482 trillion in 2002 and $2.266 trillion in 2003. Advisers managing between $10 - 50 billion reported discretionary AUM of $4.524 trillion in 2002 and $4.429 trillion in 2003. Advisers managing between $5 - 10 billion reported discretionary AUM of $1.218 trillion in 2002 and $1.180 trillion in 2003. Advisers managing between $1 - 5 billion reported discretionary AUM of $1.432 trillion in 2002 and $1.468 trillion in 2003. Advisers managing between $100 million - 1 billion reported discretionary AUM of $710 billion in 2002 and $691 billion in 2003. Advisers managing $25 - 100 million reported discretionary AUM of $120 billion in 2002 and $122 billion in 2003. Advisers managing less than $25 million reported discretionary AUM of $7.4 billion in 2002 and $8.64 billion in 2003.

[6] The number of firms reporting total AUM in the $25 million to $100 million range increased by 5%, again reflecting the trend of shrinking assets in 2003.

[7] Approximately 74% of these advisers have registered with the SEC because they control, are controlled by or are under common control with, an investment adviser registered with the SEC and have the same principal office and place of business. See Rule 203A-2(c).

[8] The way this question is phrased on the Form ADV, only advisers organized as sole proprietorships could correctly answer that they are also registered representatives of a broker-dealer. The large number of responses to this question indicates that most of the advisers checking this response did not understand the question. It is likely that these advisers have employees who are registered representatives of a broker-dealer.

[9] “Related persons” include the adviser’s officers, partners, directors, employees (other than those performing clerical, administrative, or support), and persons (including entities) directly or indirectly controlling or controlled by the adviser or under common control with the adviser.

[10] There are two possible reasons for an investment adviser to report assets under management with no clients. First, the investment adviser manages its own money and/or its family’s money with no advisory fees exchanging hands. Second, the investment adviser inaccurately filled out Form ADV.

[11] According to the SEC, “sources have estimated that there are close to 5,700 hedge funds operating in the United States today with approximately $600 billion under management.” Testimony of William H. Donaldson, Chairman, Before the Senate Committee on Banking, Housing, and Urban Affairs (April 10, 2003).

[12] Investment advisers have the ability to select more than one client type on Form ADV, Part 1, Item 5(D).

[13] As defined in Form ADV Part 1A, Item 5.D., retail clients are individuals other than high net worth individuals, *i.e*. individuals with less than $750,00 managed by the adviser or less than $1.5 million net worth.

[14] These figures include the 224 advisers that marked the “none” response for *every* type of client listed in Item 5.D., including “other.”

[15] The answers to this question appear to be counterintuitive in relation to the number of advisers with discretion to select brokers. Most advisers who have discretion to select brokers will typically negotiate the commissions to be paid by the client. It may be that advisers who have discretion to select the broker but not to negotiate commissions primarily trade in securities for which the broker receives non-commission based compensation (mark-ups or mark-downs, for example). Another potential reason for these responses is that small advisers feel they have no negotiating power.

[16] *Custody of Funds or Securities of Clients by Investment Advisers,* Release IA-2044 (July 18, 2002).

[17] Perhaps this is borne out by the fact that of the 3,059 advisers that are not affiliated with any other entity, 2,860 did not respond “yes” to any disciplinary question (93.5% vs. 82.5% of all firms). In other words, it is likely that the same disciplinary history is simply repeated by a number of separately-registered affiliated firms.

[18] Of these firms, 141 reported no assets under management at the time of Form ADV filing.

[19] *Exemption for Certain Investment Advisers Operating Through the Internet*, Release No. IA-2091 (Dec. 12, 2002).

Investment Counsel Association of America

The Investment Counsel Association of America is a not-for-profit organization that exclusively represents the interests of SEC-registered investment adviser firms. The Association was founded in 1937 and played a major role in the enactment of the Investment Advisers Act of 1940, the federal law regulating the investment advisory profession. Today, the ICAA consists of about 300 SEC-registered investment advisory firms that collectively manage in excess of $3 trillion in assets for a wide variety of institutional and individual clients. For more information, please visit www.icaa.org.

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