An Analysis of the Investment Management Industry

Investment management is the professional management of various securities and other assets in order to meet specific goals for the benefit of the investors. Services provided may include: Investing, Investment planning, Trust and Estate planning, Wealth management, and Advisory services. Investors may be large or small institutions as well as private investors.

Porter's Five Forces Analysis

Entry into the investment management industry is not very difficult. Though there are legal barriers, and prestige barriers, there is not an intense need for infrastructure and capital equipment. There is also not a capital requirement to start such a business, or firm. But to do so with any success, a firm should have an adequate level of funding to meet necessary overhead, regulatory, and promotional expenses for at least 3 years or more. This will help the new firm survive the lean years and focus on marketing, client acquisition, and customer service – the things that differentiate a more successful investment management firm from others. Overall, the likelihood of new entrants is **moderate**.

The substitute, or other option to investing your money is not to invest your money. In the world we live in, there is such thing called inflation, and most people know that. So stuffing money in our mattresses is not really an option at all. The only other close substitute that offers the same benefit as investment management are types of life insurances. The cost of life insurance is low-moderate, and its perceived product differentiation and value compared to investment firms is low. Overall, the threat of substitutes is **low**.

There is not much to the bargaining of supplier power to be looked at in the investment management industry. The industry has more influence over its suppliers than vice versa. From software suppliers, to office supplies, computers, quote suppliers, and leveraging relationships with mutual fund companies, the suppliers of this industry are not unique. Cost of switching suppliers is low, and each supplier's impact on revenue is moderate. Overall, supplier power is **low**.

There is much more power in the hands of the buyer in this industry, the millions of people who invest their trillions of dollars. Buyers are becoming increasingly institutionalized. More and more information is available at their fingertips, and because they are consumers, they are price sensitive. Most investment management firms charge around the same, and offer the same products. It is relatively easy for buyers to take and switch their money into different firms and investments. Overall, the bargaining power of buyers is **high**.

There are a lot of players in the asset management game outside of asset management firms which include traditional banks, investment banks, and insurance companies. Though the big names still dominate a lot of the assets in the industry, these other companies expanding in to asset management provides plenty of competition. Product differentiability is moderate, but over a long run, after fees, it is difficult for most products to outperform the market. Also, competitive advantage is difficult to maintain, because the best investment managers and teams are head hunted by competitors. Overall, the intensity of existing competitors is **high**.

Trends & Storylines

- Department of Labor new fiduciary rule – There are new restrictions on broker's conflicts of interest, aimed to shield investors from retirement plan advice by brokers who put their own profits ahead of their client's financial interests.

Earnings and Stock Pricing Trends

The leaders in this industry have very consistently beat earnings estimates quarter after quarter over the past 5 years. Also, after drawing lines on the stock prices of these industry leaders, and seeing the revenue growth of the industry in the past 3 years, stock prices are definitely trending up. Besides the leader in this industry, BlackRock Inc., annualized growth rates in EPS, cash flow, and revenue throughout the industry are inconsistent company to company. Companies such as BlackRock, Northern Trust, and T. Rowe Price post a strong 7% - 13% growth rate in those areas.