Another Way To Break Away As An RIA

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By Simon Hoyle, FA Magazine

Many financial advisors want to leave the broker-dealer world and join RIAs. But they don't necessarily want to register their own firms.

One obvious choice is to turn to what's called "turnkey RIAs." These are independent RIA firms (in many cases owned and managed by advisors) that offer support to those advisors wanting to piggyback their practice onto a firm for business essentials and often much more.

Advisors are increasingly turning to this model, and away from the dated broker-dealer model, because turnkey RIA firms still offer them the help they would otherwise need with compliance, client billing, account performance reporting, etc. Turnkey RIAs also offer advisors the basic technology to run their business (their "tech stack") because, like broker-dealers, these firms can vet the assorted applications advisors will need, ranging from CRM programs to financial planning applications. Moreover, turnkeys often accommodate an advisor's request to use a particular technology not available on the standard menu, something B-Ds are hesitant to do.

Basically, a turnkey RIA allows you to come as close as you want to "being your own RIA" and to "plug and play" with an existing firm—but without going all the way and running an RIA yourself. The latter choice requires you to register with the Securities and Exchange Commission (or your state if you don't meet a certain asset threshold).

Running your own RIA also means essentially running two businesses at the same time: one in which you work with clients and one in which you operate a regulatory/administrative entity that puts you in charge of all compliance matters, technology matters and other things. That's a huge undertaking.

Many advisors looking to be recruited out of other channels are drawn to this model (the ones I work with are mostly coming from independent broker-dealers, though advisors from other channels such as the wirehouses are also attracted to it). Why? The model of broker-dealers is dated when it comes to the fees they charge for services like business processing, compliance help, marketing support and website creation. Advisors are likely going to find the prices more compelling in the turnkey RIA space, where they can increase their net revenue while lowering their clients' administrative fees.

At the same time, advisors in this space are better positioned to work as fiduciaries. As regulators exert more pressure and best interest requirements become a bigger problem for broker-dealers, those problems loom for the broker-dealer reps too (especially if clients lodge complaints against them). That's why attorneys preach so much about advisor liability at FPA chapter lunch meetings. Given those problems, it's no wonder the head count is shrinking in the B-D world.

There are four key advantages turnkey RIAs offer:

Financial advantages. Say you have an advisor who manages about $40 million in advisory assets and also serves clients with 403(b) accounts. Like many advisors, she might be considering leaving the broker-dealer mold for RIA models.

Say she did a cost-benefit analysis and considered going solo and registering an RIA of her own. She realizes her service could be affected if she were a stand-alone client of institutional custodians like Fidelity IWS, Pershing Advisor Solutions or Schwab. She would forfeit better pricing and other enterprise benefits and might be pigeonholed in a category that gets her only those companies' most basic support. Moreover, her compliance and technical support costs would eat into her net monetary gain. And she would not likely want to take on her own responsibilities for compliance, technology and a long list of other things.

Ultimately, it might be an easy decision for her to affiliate with a turnkey RIA instead.

Many advisors assume that if they have more than $100 million in assets under management that they should be registering their own RIA, but that's not the case. Advisors with more in assets and revenue can still benefit from a group scale and enjoy break-point asset pricing going with a turnkey advisory (the costs decline at higher asset tiers).

Also, at turnkey firms, the advisor payouts are typically 100%, minus the all-in pricing for assets under management charged to affiliates (which are around 8 to 12 basis points). Many advisors are also increasingly wanting to charge their clients financial planning and subscription fees in addition to AUM fees. It's important to remember that few turnkey RIA firms would allow their investment advisor representatives to retain 100% of those fixed fees. Some collect several basis points from their reps for these fees while others apply the higher AUM based fees mentioned before.

Independence advantages. Like clients, advisors want better service, pricing and the ability to move assets to new platforms, something that's easier to do when they have direct relationships with RIA custodians. Better access to multiple custodians can give an advisor more flexibility and allow him or her to take advantage of the best of the custodians' features.

Many reps with broker-dealers, meanwhile, have seen their service deteriorate as the B-Ds struggle with a weak economy and attendant staffing issues (many firms are poaching one another's employees). By going with a turnkey RIA instead, they could minimize the heavy hand of the home office in business processing, save more time and deal with fewer mistakes, and it would be much easier to move client accounts. In fact, if clients stay with their custodians when a rep moves from one RIA to another, the clients can keep their account numbers, which is convenient and comforting for everyone if you ever need to change firms again.

Advisors can expect inclusive and robust tech stack offerings at an RIA firm as well as better compliance and customer support (offerings that are often better than those at a broker-dealer and can be more quickly implemented). Affiliate advisors with RIAs can also add fintech applications to complement their standard platforms (for a reasonable out-of-pocket expense).

When affiliating with any firm, you will want partners who support your brand, marketing, investment offerings, website, etc. You should be able to market your own firm's name and beware those companies that only want you to support theirs.

Some advisors who move to the RIA world would like to retain at least some commission accounts, (because they feel that offering both fees and commissions will provide the best client solutions). Advisors can keep their commission business and revenue by adding an external (and usually smaller) B-D relationship.

Compliance advantages. When you affiliate with a firm, you're going to want to know its compliance mentality and culture. A lot of partnerships fail when a rep and their RIA are not on the same page. So you should learn step by step how your business will be processed. How will the RIA firm handle those things you currently find most challenging? Where does it make its money? What's its revenue mix, including the contribution of higher risk products like alternatives? How many of its advisors have run into trouble with compliance?

The good news is that an established RIA can provide a buffer between you and regulators. Smaller RIAs can provide better compliance help because they will know you better, something that's lost at many larger broker-dealers.

Partnership advantages. Many turnkey RIA firms have fewer than 100 advisors, so they foster more personal relationships.

But it's important, if you want to join one of these firms, to learn about their roots and the owners' backgrounds. How long have they been in business? Are they planning to sell in 10 years? Are family members the succession plan? What's their end game? Are they running business as you would, or even better? Some of these RIA owner-advisors stay grounded by servicing a short client list while running their firms.

You can also benefit by working with these firms' chartered financial analysts, who can review your investment strategies. Turnkey RIAs also likely offer competitive in-house investment advisory models that allow you more time with clients.

Independent-Minded Advisors

Turnkey RIAs are increasingly attracting independent-minded advisors, including those who might even already have an RIA of their own but want to simplify their lives and do what they enjoy more—helping others.

So there's never been a better time to consider an RIA-centered model like this one. It lowers client expenses dramatically. The net revenue is better for advisors. And it's fiduciary friendly.

A wide spectrum of options await. It can be a short-term challenge, but the rewards are plentiful.