ThinkAdvisor

5 Steps to Boosting Your Independence — Today

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What You Need to Know

- Independent RIA models are becoming more attractive to advisors who have grown weary of BD relationships.
- With an abundance of options, the due-diligence process becomes more time-intensive and important.
- This is the best time in decades for advisors to upgrade and strategically position their practices.

Many advisors have lost that loving feeling of being independent. Broker-dealer service shortfalls and tiresome business processing are testing advisor patience.

Independent registered independent advisor models are paving the way by creating the ideal working climate and answering advisor wishes in the process. They provide varied focuses and expertise for significant practice upside. Vetting them, though, takes considerable time, and the numerous opportunities available make the process quite cumbersome.

For advisors considering the leap to an RIA, taking some time to evaluate the options and to consider their own goals can help make the change less intimidating.

For too long, BDs have been seen as the path of least resistance for advisors, whose plans to move on are influenced by the comfort and familiarity of what's worked before. However, a new element is in play: the anxious excitement of advisors wanting a better and more meaningful way to work.

Opportunities for positive change are synonymous with indie RIAs, but some recruiters may remain loyal to their favorite BDs. The bigger BDs are capable (and more likely) to provide advisors with head-turning forgivable notes, high recruiting payouts and volume bonuses.

This makes them hard to abandon. Plus, if advisors are supposed to differentiate by specializing their practices, is it best to do that under the uniformity offered by dated norms at some BDs?

2. Get expert input.

Like top financial practices, independent RIAs have specialties and expertise. They compete mostly on price (already the industry's lowest) and service.

They provide essential functions like BDs do, including compliance, supervision, account processing, technology, etc., so you can plug and play your business. Their appealing upside and unrivaled flexibility helps you run your business more your way.

The benefits of joining an RIA firm include the best pricing for your practice (low client and advisor administrative costs), markedly higher net revenue, fiduciary safeguards and numerous options to align business interests.
Let's say your client subscription fees generate substantial revenue. You could join an RIA where you keep 100% of these fees through your practice as long as they participate in your asset management revenue.

In another case, the advisor runs her/his own advisory models and wants to retire in five years, but feels his adult child successor would be more successful handing off that responsibility. Joining an RIA firm with in-house investment models run by their Chartered Financial Analysts could be a good fit.

With an abundance of options, the due-diligence process becomes more time-intensive and important. This is where recruiters can be invaluable.

While it's important to review potential firms' financial and regulatory status, your success and happiness lean on a good personal fit, too. Ask your recruiter how they vet relationships (not just how their recruiting process works) to learn of their expertise and support. What's the size and number of affiliates they work with and how will your practice directly benefit?

Ultimately you may decide to register your own RIA, but at least you're now in the driver's seat. Your options are only limited by the number of quality introductions you engage — but watch for competing interests.

3. Understand your best interest and that of your clients.

BD administrative fees, especially advisory ones, are charged to advisors; clients significantly fund these enticements, which may crossover to client complaints. Work with someone who wants to reduce your practice fees to new standards.

Your reward is the win/win world of RIAs where reduction of costs for you and your clients can *pay you more and safety-net* your practice too. BDs generally haven't adopted a real fiduciary environment, as shown by the number and type of revenue sources most employ.

Platform access fees and oversized participation in money market fees lead to substantial profits, often with little to no work done that can give "gross revenue" a bad name.
Frustration can grow when BDs shelve FA pain points while making BD purchases, which adds complexity and tends to dilute staff effectiveness.

4. Pick your path and then choose your vehicle.

When shopping around, it's important to think of where you're going. Work with someone who really gets what's important to you.

Advisor needs are increasing as they look to add services and collect revenue beyond asset management fees as client expectations go wide.

Your biggest financial decision, however, may be your practice's sale.

Advisors have been encouraged to transition to BDs, often bigger ones, where they might more easily sell their books. This has merit, coupled with potential drawbacks.

First, it's a lateral BD move, which may not be in your practice's best interest. Plus, the buyer likely assumes the remainder of your forgiveness schedule (time cuffs) and therefore loses business flexibility.

Advisor practices are poised to stay in high demand; also, clients are used to virtual meetings and are interested in the "right" advisor more than the "nearby" advisor. Enjoy the benefits of an RIA firm now. When you sell, the transfer should be easier if client accounts are already with institutional custodians.

Lastly, advisors move. Oftentimes, moving to another BD for a planned succession doesn't materialize for many reasons, including advisors moving to greener pastures or finding a better buyer profile, etc.

5. Take the next steps.

This is the best time in decades for advisors to upgrade and strategically position their practices. Recruiters play a fundamentally important role in our vast environment — one you could benefit from.

Education is key. Advisors who say they don't want to "go RIA" often misperceive the phrase's meaning. They picture leaving the comfort of the BD world and literally starting over, handling everything themselves. But that's not the only option. Like any unknown, it can take time to learn, but could also be one of your best investments.

A 10-minute conversation with a good recruiter may have you thinking RIA also stands for "Really Independent Advisor." Interest grows quickly around lowering practice levied fees, gaining more independence, flexibility and retaining substantially more revenue while doing the right thing for clients, effectively installing regulatory bumpers.

Wirehouse breakaways are now common, and the already-independent breakaway model is just beginning. Focus on the right model, be more productive and rest easier.

May you find your path… and as we say in Texas, happy trails to you.