The Myths and Realities of Becoming an RIA

Know the Facts Before Making a Move
Many financial advisors increasingly understand the potential benefits of “going independent,” though there are still misconceptions around what it means to be a Registered Investment Advisor (RIA).

Becoming an RIA is a big step, so it is important to know the facts before making a transition. This piece is intended to bring to light the common myths about RIA firms, and arm you with information about the realities of what it truly means to go independent.

Your Step-by-Step Guide to Becoming an RIA
At TD Ameritrade Institutional, we have a passion for helping advisors become RIAs, and the experience to help advisors with different goals and ambitions. Our Bridge to Independence program arms advisors with the tools, capabilities, and know-how to become an RIA.
### A Quick Glance: The Myths and Realities of Becoming an RIA

<table>
<thead>
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<th>Myth</th>
<th>Reality</th>
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<tr>
<td>My practice isn’t large enough to become an RIA</td>
<td>Advisors choosing to make a move span asset and production levels, and typically fit a particular “entrepreneurial” mindset</td>
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<tr>
<td>The transition is too hard and I will lose clients and revenue</td>
<td>While moving from one firm to another firm or channel is a big commitment, most advisors have very successful transitions and client loyalty remains high</td>
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<tr>
<td>I won’t grow client assets the first year after I transition</td>
<td>Growth potential is high; on average, 73% of advisors experienced an increase in the number and quality of referrals within their first 10 months¹</td>
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<tr>
<td>I will have to give up my securities licenses and commissionable business</td>
<td>Advisors may choose a “hybrid” model which enables them to maintain their licenses while still being independent, giving them the ability to do both fee and commission business</td>
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<tr>
<td>If I go independent I may make less money and lose my retirement plan</td>
<td>Independent firms’ economic structures enable advisors to keep 100% of their revenue and also enable them to build business equity that can be monetized upon retiring</td>
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<tr>
<td>I will not have access to robust technology as an RIA</td>
<td>Industry analysts and advisors feel the technology available to independent advisors rivals what is available for wirehouse representatives, given the focus on the needs of RIAs in recent years²</td>
</tr>
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<td>I won’t have access to a broad range of investment products</td>
<td>By becoming an RIA, you have the ability to select the products most appropriate for your clients. Asset custodians often work with RIAs to add new investment vehicles to their product lineup</td>
</tr>
<tr>
<td>I won’t be able to grow as an RIA without a big Wall Street brand-name and budget</td>
<td>Establishing your own brand or leveraging the brand of an existing RIA has benefits as consumer preferences are shifting</td>
</tr>
<tr>
<td>It will be cumbersome and difficult for me to establish an RIA</td>
<td>Unlike a decade ago, the resources available to you now are vast and plentiful. Custodians like TD Ameritrade Institutional have systems, processes, and people to help you realize your vision for independence</td>
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¹ Experiences of Advisors in Transition, REP. magazine, 2012
² Advisor Growth Strategies, 2013
Myth 1: My practice isn’t large enough to become an RIA

Reality: Advisor preferences are evolving, and advisors choosing to make a move span asset and production levels. Indeed, every month, our industry sees a major defection from advisors either starting or joining an RIA firm. The RIA market experienced tremendous growth over the past decade. Since 2004, the number of RIAs has increased from 20,851 to 28,714, while the number of fully affiliated (wirehouse) advisors has decreased from 60,960 to 51,450.³

Advisors who choose to go independent typically fit a particular entrepreneurial mindset, seeking to solve a more strategic challenge or seize an opportunity to:

- Build equity in a business that can be monetized or transferred one day
- Do what’s in the best interest of the end client
- Attain better economics for clients and for the firm
- Gain more control over branding or marketing

There are many options for independence beyond starting your own business, including joining an existing independent firm. TD Ameritrade Institutional has helped thousands of advisors make the move. We can help you think through the considerations to choose the path most appropriate for you.

Myth 2: The transition is too hard and I will lose clients and revenue

Reality: Moving from one firm to another firm or channel is a big commitment, and there are questions you maybe asking yourself such as:

- Will my clients follow me if I go independent, or will they see my transition as an easy way to move to a new advisor?
- Will I be on my own without a big-name firm behind me?
- Can I deliver equal or better service as an RIA?
- How will my clients be affected by a move?

³ Cerulli Quantitative Update, Advisor Metrics, 2012
Although these concerns are valid, the reality is that most advisors have very successful transitions and client loyalty remains high. Advisors who transitioned to the RIA channel in 2012 saw over 90% of their targeted assets transfer with them. Based on past results of advisor transitions, you should have confidence that the majority of your clients will likely transition. Mike MacNamara, Senior Partner, MacNamara Financial Services, Inc., noted, “The process (to transfer clients) unfolded in less than a week’s time.”

The transition capabilities when an advisor chooses to become an RIA have also increased significantly. New services and legal frameworks help make advisor transitions more streamlined and efficient. The main changes you may experience include:

- Streamlined new account paperwork offered by custodians such as TD Ameritrade Institutional
- Dedicated transition resources within technology companies, custodians, and other RIA providers
- The ability to gain an understanding of how “Broker Protocol” may affect your transition
- Improved technology capabilities of the RIA channel that can help speed the transition process

Moreover, new account paperwork can be streamlined, with resources dedicated to making the transition process as smooth as possible. The main changes you may experience include:

- New account paperwork
- Dedicated transition resources
- Understanding of Broker Protocol
- Improved technology

A step-by-step approach can allow you to focus on your most important asset—your clients—before, during, and after your move. “One of the things TD Ameritrade Institutional did for us, is they made us feel at home, put great people around us, and helped us through the transition.”

- Dan Hypes, CEO, Lifeplan Financial Group
**Myth 3: I won’t grow client assets the first year after I transition**

**Reality:** Advisors who decide to make the transition to become an RIA want something more for their business and their clients. They may want better service and technology, or they may want better economics for their clients or themselves, or there is a belief they can accelerate growth by going independent. Although these categories are general, you may have a far more personal trigger that provides the energy, focus, and resolve to move forward with making a change.

<table>
<thead>
<tr>
<th>Market Share Comparison between 2007 and 2011</th>
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<tr>
<td><img src="image" alt="Graph showing RIA and Wirehouse Market Share Comparison between 2007 and 2011" /></td>
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Advisors might believe that a transition will be so disruptive to their practice that it will be difficult to focus on growth for the first year. While becoming an RIA will require you to spend time on new opportunities such as learning new systems, building processes, establishing your brand, client communications, and other key elements of starting a business, these are “one-time events” and growth potential is high. In fact, wirehouse market share decreased by 13.29% between 2007 and 2011, while RIA market share grew 35%. Recent studies by the independent research firm Cerulli Associates suggest that the trend in market share gains may accelerate in the future.

**Perspective**

The question you should ask yourself is “What business model would be better for me when it comes to growing my business?” Ron Wyatt, Managing Principal, JFS Wealth Advisors.

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6 Cerulli Quantitative Update, Advisor Metrics, 2012
7 Experiences of Advisors in Transition, REP. magazine, 2012
stated, “There is much more flexibility. Our growth potential is higher in the RIA channel.” The reality is that you have the opportunity to grow on day one, given the more streamlined processes available to you and your own personal focus. On average, 73% of advisors experienced an increase in the number and quality of referrals within their first 10 months of moving to the RIA channel.⁷ If you decide that starting your own RIA may not be your best path, you can consider joining an existing independent entity instead.

**Myth 4: I have to give up my securities licenses and commissionable business**

**Reality:** Many independent advisors prefer a fee-only model, while others operate as a “hybrid”, aligning their licenses with an independent broker-dealer. This hybrid model enables them to maintain their licenses while still being independent, giving them the ability to do both fee and commission business. And the hybrid model is growing in popularity; combined headcount for RIAs and hybrid advisors is projected to grow 5.2% through 2016. Wirehouse headcount is projected to grow 1% through the same period.⁸

TD Ameritrade Institutional will help you navigate that decision to either take a fee-only approach or keep your commission-based business, and if needed, introduce you to broker-dealers serving hybrid advisors. We consult with you to understand your unique and personal goals, and we tailor our solution to your individual requirements.

### Projected Headcount Growth Rate through 2016⁸

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<tbody>
<tr>
<td>RIA and Hybrid Advisors</td>
<td><strong>+5.2%</strong></td>
</tr>
<tr>
<td>Wirehouse Advisors</td>
<td><strong>+1%</strong></td>
</tr>
</tbody>
</table>

**Additional Guidance**

TD Ameritrade Institutional’s RIAConnect™ program was established to help match advisors who want the benefits of independence—without the responsibility of business management—with established RIA firms. Many of the participating RIA firms already have broker-dealer relationships, which may allow you to keep your commission-based business. The benefit to advisors is the ability to focus on client relationships, while the existing independent firm provides the support services.

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⁷ Experiences of Advisors in Transition, REP. magazine, 2012
⁸ Cerulli Quantitative Update, Advisor Metrics, 2012
Myth 5: If I go independent I may make less money and lose my retirement plan

**Reality:** More than three-quarters of financial advisors who moved to an independent business model report they are better off financially. One reason for this may be that independent firms’ economic structures enable advisors to keep 100% of their revenue. With industry averages for overhead expenses in the 40%–45% range, advisors typically net a 55–60% payout after overhead expenses, which is double the typical wirehouse payout on the grid. An internal succession plan can yield the owner of the business 6x trailing 12 months revenue at sale vs $0 enterprise value in a wirehouse.

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**Economic Illustration: Advisor with $2.5 Million Production**

<table>
<thead>
<tr>
<th>Current State: Wirehouse</th>
<th>Future State: RIA</th>
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<tbody>
<tr>
<td>Gross production</td>
<td>$2,500,000</td>
</tr>
<tr>
<td>Fee revenue</td>
<td>$2,500,000</td>
</tr>
<tr>
<td>Broker-dealer split</td>
<td>$1,450,000</td>
</tr>
<tr>
<td>Broker-dealer split</td>
<td>$0</td>
</tr>
<tr>
<td>Advisor payout</td>
<td>$1,050,000</td>
</tr>
<tr>
<td>Advisor payout</td>
<td>$2,500,000</td>
</tr>
<tr>
<td>Advisor expenses</td>
<td>$50,000</td>
</tr>
<tr>
<td>Advisor expenses</td>
<td>$875,000</td>
</tr>
<tr>
<td>Advisor net income</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Advisor net income</td>
<td>$1,625,000</td>
</tr>
</tbody>
</table>

Note: Economic illustration is for illustrative purposes only. Gross production, broker dealer split, and advisor payout will vary from firm to firm. Source: Advisor Growth Strategies.

Owning a business could also bring additional short-term and long-term tax benefits that may help offset costs of investing in your business. Speak with your tax professional about your specific situation and business structure. By establishing an independent firm, advisors also build business equity that can be monetized upon retiring.
There is a thriving market for independent practices, with multiples north of two times revenues\textsuperscript{12} to potentially create a sizable amount of money that can fund a long retirement when the time comes.

**Myth 6: I will not have access to robust technology as an RIA**

**Reality:** By becoming an independent RIA, you get to take advantage of the open architecture ecosystem and make your own purchasing decisions. You may choose to select “best-in-breed solutions” to automate key functions such as proposal generation, reporting, trade order management, research, and client relationship management, among others. Some newly minted RIAs may choose to take a more turnkey approach and select a single technology provider.

Industry analysts and advisors feel the technology available to independent advisors rivals what is available for wirehouse representatives.\textsuperscript{13} While Wall Street firms have been busy integrating systems from mega-mergers, independent advisory platforms over the past decade have been innovating to create flexibility, choice, and integration.

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**Innovative Independent Advisory Platforms**

- Flexibility
- Choice
- Integration

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Advisors who work at large institutions may feel their large national brands have far greater size, scope, and resources that ultimately lead to a richer and more advanced technology. Although these large institutions invest heavily in advisor technology, RIAs are enjoying the same level of technology investment from their providers. Over the past decade, RIAs have seen an incredible increase in the number of technology providers, integration points between providers, and significant advances in the value delivered.

**Additional Guidance**

At TD Ameritrade Institutional, our goal is to consult with you to find the best fit for you and your business. The heart of our technology system acts as the hub for your technology solution, and we build integration points with the best the RIA industry has to offer. RIA technology may offer you a superior solution to what you have today. The only way to determine if this is true for your practice is to become educated and find out.

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\textsuperscript{12}\textit{InvestmentNews} “Recurring Revenue Fee Ratio Continues to Rise; Down Payments Getting Larger Too” February 24, 2012

\textsuperscript{13}Advisor Growth Strategies, 2013
Myth 7: I won’t have access to a broad range of investment products

Reality: RIAs enjoy a different approach to product and investment access. First, a structural note: fee-only RIAs do not get paid for product usage. Instead, RIAs charge a fee for their advice and select the investments that are right for their clients. If you choose to charge a commission for an investment solution, you can become a “hybrid” RIA and have a commission-based option as part of your solution set. Sean Curley, Founder, The Retirement Planning Specialists, LLC., noted, “For me, the big issue was control over my business, our products, and my client relationships...and to do what's right for clients.” Successful financial advisors are always looking for best-in-breed investment solutions for their clients. In fact, your clients may hold positions that are only available at your firm, whether the products are from third-party providers or your firm’s parent company. Despite the perceived benefits proprietary products may offer, many advisors find it challenging to get investment solutions added to their product lineup if they are currently off the menu.

Asset custodians, like TD Ameritrade Institutional, play the role of being the custodian and record keeper of client assets. Instead of seeking to specify certain investment solutions to you, independent custodial providers work with you to add investment solutions to their platform to suit your needs. What’s different is that by becoming an RIA, you have the ability to select the products most appropriate for your clients without the challenges of a closed or top/down broker-dealer process.

Myth 8: I won’t be able to grow as an RIA without a big Wall Street brand-name and budget

Reality: Many advisors consider being a business owner the hallmark of success, and some refer to being an independent RIA as the last transition they will make in their career. Once an advisor becomes an RIA, there are rarely any additional moves to another firm, given the substantial
benefits that can be gained. Leaving the perceived “air cover” of a national or well-established brand could leave advisors wondering if they will still have the same level of marketing support, or if a local brand will properly resonate with existing clients and potential new clients. However, after the financial crisis, many firms’ brands have been tarnished in the eyes of investors. In fact, a June 2013 Gallop poll found that only 26% of Americans trust national banks. An independent firm working with a strong custodian is seemingly becoming more and more attractive to many high-net-worth investors who previously engaged with traditional Wall Street firms. Another study notes that 41% of high-net-worth investors stated they prefer to work with an independent, local firm. While only 16% prefer to work with a big bank.

Only you can determine whether trading your firm’s existing brand for a more boutique brand of your own is the right fit. However, establishing your own brand has its benefits:

- The ability to establish your own unique value proposition
- Sitting on the same side of the table as your clients
- The opportunity to build your own integrated sales and marketing plan and execute it the way you see fit
- The ability to develop client communications without many of the approval restrictions of a national financial services firm
- Greater control of the client experience in terms of establishing an office, client reports, phone channel, email channel, Web, and all other day-to-day touch points with your clients
- The ability to establish creative marketing channels such as leveraging the media through public relations, the ability to network more effectively in local markets, and the potential to leverage social media in a more meaningful way

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**% of Americans that Trust National Banks**

![Chart showing 26% of Americans trust national banks.]

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**High-Net-Worth Investors Prefer Working with Independent Firms**

<table>
<thead>
<tr>
<th></th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Prefer Independent Local Firm</td>
<td>41%</td>
</tr>
<tr>
<td>Prefer Big Bank</td>
<td>16%</td>
</tr>
</tbody>
</table>

14 June 2013 Gallup Poll
15 Byallaccounts 4Q11 HNW Investor Study
Myth 9: It will be cumbersome and difficult for me to establish an RIA

Reality: Building a new business and becoming an RIA is a significant undertaking. When advisors decide to make a transition to become an RIA, they spend a good deal of time and energy preparing for and executing against the development of their new business. To obtain the confidence to go through with establishing an RIA, an advisor believes the long-term benefits realized are greater than the effort to go through with the move. Hundreds of advisors make this trade year in and year out, resulting in the RIA channel being the fastest-growing channel in financial services.iii

Unlike a decade ago, the resources available to you now are vast and plentiful. Custodians like TD Ameritrade Institutional have systems, processes, and people with deep competencies and capabilities to help you realize your vision for independence. A dedicated team will assist in all aspects of the transition process, from locating real estate to selecting technology to identifying compliance professionals to get you up and running quickly and seamlessly.

The RIA ecosystem has also matured significantly, and you have the option of hiring consultants, platform providers, and other value added partners, essentially outsourcing much of the transition process.

If starting your firm still isn’t right for you, you are not alone. We’ve found that one in four advisors who have made a move have joined an existing firm. If you feel joining an existing RIA is the best path for you, you stand to realize an instant benefit, given that the firm you may join likely has a “plug and play” solution, essentially neutralizing much of the work of establishing an RIA business.

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One in Four Decide to Join an Existing RIA Firm

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Additional Guidance

Whether you are ready to become an RIA now, or just exploring your options to make a move, our Bridge to Independence program makes it easier for you, bringing you a comprehensive suite of resources, services, and tools to guide you through a smooth and successful transition.

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14 Cerulli Quantitative Update, Advisor Metrics, 2012
## Models of Independence

<table>
<thead>
<tr>
<th>Model</th>
<th>Start an RIA</th>
<th>Hybrid or Dual Registration</th>
<th>Join an Existing RIA</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Description</strong></td>
<td>Build your own entity</td>
<td>Start or join an existing RIA and align with a broker-dealer for commission business</td>
<td>Become part of an existing RIA as an employee or owner</td>
</tr>
<tr>
<td><strong>Mindset</strong></td>
<td>“Now is my time. I have the confidence, experience, and entrepreneurial spirit to make my business vision come to life. I want to start my own firm.”</td>
<td>“I want to become an RIA but I don’t want to leave all of my commission-based business behind”</td>
<td>“I’m interested in all the benefits true independence has to offer; I’m just not sure I’m ready to start my own business. I want to join an existing firm.”</td>
</tr>
<tr>
<td><strong>Key Attributes</strong></td>
<td>▶ Complete ownership of business ▶ Select best–in–class providers to automate business ▶ Responsible for all elements of advisory and business management</td>
<td>▶ Start an RIA and identify a broker-dealer for commission business, or join an existing RIA with a broker-dealer solution ▶ Dual oversight from FINRA and SEC ▶ Broad set of solutions outside of investments (e.g. insurance products, alternative investments, etc.)</td>
<td>▶ Leverage existing brand, process, and systems of an existing RIA firm ▶ Wide diversity of models and approaches ▶ May have significant local or regional advantage</td>
</tr>
<tr>
<td><strong>Benefits</strong></td>
<td>▶ Maximum control ▶ Control economics and expenses ▶ Maximum compliance flexibility</td>
<td>▶ Ability to have both fee and commission business and retain revenue related to past and future commissionable sales ▶ Ability to build broad wealth management capabilities ▶ Expanded access to products only accessible on a commission basis</td>
<td>▶ Existing brand of RIA ▶ Built–in capabilities ▶ Business continuity ▶ Potential for liquidity</td>
</tr>
<tr>
<td><strong>Considerations</strong></td>
<td>▶ Requires business management acumen</td>
<td>▶ Strategic fit with broker-dealer for commission business ▶ Responsible for following broker-dealer compliance guidelines ▶ Requires integration of systems, processes, statements and communications</td>
<td>▶ Cultural fit ▶ Alignment of investment philosophy ▶ Matching compensation</td>
</tr>
</tbody>
</table>
Conclusion

Now may be a good time for you to consider making a move. If you have been concerned about the tarnish on the brands of major Wall Street firms, or have been watching your payout decrease, you’re not alone. The shift towards independence is still going strong as assets under management in the RIA space have grown at 5.5 times the rate of those in wirehouses.¹⁷

There is a strong appeal for advisors on many levels. Becoming an RIA is an excellent way to deliver a superior experience to your clients, and potentially accelerate the growth of your business—building assets in your own firm and creating enterprise value from day one. Advisors like you may have preconceived notions of challenges and limitations of being an RIA that may not actually be true—but may be holding you back. Going independent does not have to mean going it alone.

At TD Ameritrade Institutional, you can count on our expertise and consultative approach to educate and guide you throughout the process. We will help you distinguish the myths from the realities, answer your questions about the process, and help ensure you make the most informed decision for your business. From the moment that you determine you want to make a change, TD Ameritrade Institutional is committed to you every step of the way.

To learn more, please call us or visit our website:

800-444-6100
tdainstitutional.com

¹⁷ Notes: RIA Channel includes fee-based assets managed by dually-registered advisors. Sources: Cerulli “State of the Wirehouses” – Nov ’09 (’05 asset figures for Wirehouses & RIAs); Cerulli “State of the RIA Marketplace 2012” (’06-’11 Wirehouses & RIAs)
About the Contributor

Biography

Scott Collins, Director of Hybrid and Advisor Transitions. Scott leads TD Ameritrade Institutional’s recruiting and consulting efforts for brokers and advisors considering becoming a hybrid or fee-only RIA. Scott has nearly 20 years of experience in the advisory industry. Prior to joining TD Ameritrade Institutional, he was the managing partner and CEO of FirstPoint Partners, a boutique consulting firm providing strategy and guidance to advisors considering transitioning to the independent advisor channel. Prior to FirstPoint, Scott spent 13 years at LPL Financial in a variety of recruiting roles, most recently as senior vice president of business development. Collins began his career as a financial advisor with Merrill Lynch.

Scott earned a Bachelor of Science degree in Psychology from Texas A&M University and holds Series 7, and 63 licenses.
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