Exploring independence
An overview of the registered investment advisor model
“The most rewarding aspect of being independent is knowing that we own our business. We are our brand.”

—Stephen Korving
Korving & Company
Executive summary

Financial advisors today have an unprecedented number of options. Sophisticated technology and increased access to financial products make it easier than ever to explore independence. An expanded array of registered investment advisor (RIA) business models has enabled advisors to look beyond traditional wirehouses and independent broker-dealers (IBDs).

At the same time, options for clients have grown as well, with online financial management becoming more mainstream. Delivering genuine, unbiased investment advice is more important than ever. This is where independent RIAs excel. Savvy clients recognize this and are moving their assets accordingly.

More and more advisors are seizing the opportunity to create the future they imagine for themselves and their clients. Independence offers unparalleled freedom and control. As an RIA, you have the potential to keep up to 100% of the revenue. You determine the shape of your business. You serve clients the way you know is best.

In the following pages, we’ll take a closer look at:

- RIA channel growth
- Benefits of independence
- Differences among RIA models
- Economics of RIA firms
- The custodian’s role

We’ll also discuss time-tested steps for making your own transformation.

You can use The RIA Roadmap anytime to find out more about getting started.
The move toward independence as an RIA

Why more advisors are choosing to become RIAs
The RIA channel has been growing steadily for the past several years. As advisors feel more confident in their options, and support services continue to expand, analysts are bullish on the channel’s future.

Industry research shows that the RIA channel has grown even as the overall number of financial advisors has steadily declined since 2005.

The wirehouse and IBD channels have been hit particularly hard. The number of advisors at wirehouses and IBDs shrank by 6.2% and 16.5%, respectively, from 2010 to 2015.1 Conversely, the RIA channel has shown sustained growth, adding more than 12,000 advisors (including dually registered) from 2010 to 2015.2 Research also shows a 44% increase in new RIA registrations with the Securities and Exchange Commission (SEC) in 2015, the largest jump in the past five years.3 And the growth in the RIA channel has been pronounced, with its compound annual growth rate (CAGR) increasing 9.9% from 2011 to 2015.4

And many advisors are upbeat about the channel’s future. In a Schwab survey of advisors at major financial firms, 73% of advisors report optimism about the potential for RIA firms to grow organically (households new to firm) over the next five years.5

So why are advisors continuing to flock to the RIA model?

They are entrepreneurs. Many advisors have an enterprising mindset. They’re self-starters, organizers, and motivators, who are invigorated rather than intimidated by challenges. To many entrepreneurs, starting their own firms is a lifestyle choice as much as a business decision.

They are dissatisfied with the culture of wirehouse firms. Although most advisors say they put clients first, some wirehouse advisors are ultimately working for their firms as much as for their clients. Many advisors bristle at this lack of autonomy, in addition to the fees and “haircuts” that wirehouses impose on advisor earnings.

They want to build their own brands. Many investors have shown a low level of trust compared to other industries. Those investors may trust their advisors absolutely, but not necessarily value the firms they work for. Going independent can help advisors strengthen their client relationships while removing the stigma investors might associate with larger corporate firms. RIAs can build their own brands from scratch, matching them to client priorities and advisor goals.

They want access to best-of-breed technology and support. Some wirehouse and IBD advisors may be limited by their options for technology, compliance, and management support—and sometimes report paying for services they don’t want or need. These advisors are increasingly turning to the RIA channel, which gives them the freedom to choose the platform and services that best fit their firms’ unique needs.

In addition, advisors are growing more confident that they have what it takes to be their own boss. They see their colleagues enjoying success with the RIA model and are inspired to go into business for themselves.
“I became an RIA because this is the future.”
—Amit Stavinsky
Tamar Securities

7.5% CAGR
More advisors in the RIA channel year-over-year (2014 vs. 2015)6

9.9% CAGR
Increase in RIA channel assets from 2011 to 20157

Wirehouse and IBD channels have shrunk annually by
1.3% CAGR and
3.5% CAGR respectively, since 20118
61% Median growth in RIA assets under management from 2011 ($365 million) to 2015 ($588 million)
The fiduciary standard

Advisors serve as fiduciaries for their clients. Their job is to provide personalized financial advice and services.

Many RIAs work with complex portfolios and address unique needs that require a highly customized level of investment management strategy and consultation. Under the fiduciary standard, firms are required by law to act in the best interests of their clients.

RIA firms are registered with the SEC or state securities regulators and are held to the fiduciary standard by the Investment Advisers Act of 1940 as well as similar state laws. As explained by the SEC: “As a fiduciary, an advisor must avoid conflicts of interest with clients and is prohibited from overreaching or taking unfair advantage of a client’s trust.” Advisors are required to file annual Form ADVs describing their firms’ business practices and client communications. Registration does not mean a government agency approves an advisor or reviews his or her qualifications.

As one advisor remarked when discussing the fiduciary standard, “My organization is lined up to do exactly what our clients want. Whatever their issues are, wherever their life and wealth intersect, I can help make a difference.”

Why it matters

Adhering to the fiduciary standard has long been a mainstay for RIAs, an especially important factor in an environment where investors are increasingly wary about whom they entrust their assets to. Knowing that you are legally required to act in an investor’s best interests can help you build trust and strengthen client relationships.
Choosing independence as an RIA is good for business
Advisors cite numerous benefits to becoming an RIA, including greater autonomy and the potential for a larger income. However, much of it boils down to a single concept: control.

A Schwab study asked advisors at large firms why they found the RIA model appealing. Although the responses varied, they all shared a common theme: Advisors wanted a bigger say in how the business was run.

Here are some of the benefits they identified.

Autonomy
RIAs have the final word on all decisions related to the business. They decide everything from the compensation structure to the technology platform to the sign on the office door.

Income potential
RIAs determine how much of their revenue they keep—up to 100%, depending on the model of independence they choose. They can assert complete control over fees and expenses, choosing only the products and services they need. Firm owners can also build equity as they grow, leading to a higher long-term payout should they choose to monetize or sell the business down the road.

Client experience
While most advisors say they put a high priority on client relationships, the RIA model helps them deliver on that promise. RIAs can decide how to engage and communicate with clients—building a marketing plan to creating a customized product portfolio for each client. By contrast, some advisors are confined to their firms’ business model, which often includes a limited number of products or services or prepackaged communications strategies. In addition, the net compensation of some advisors is tied to the products they sell. RIAs are under no such restrictions. However, RIAs are subject to the many risks and responsibilities of being a business owner. These may include oversight of the business strategy, business management, personnel management, compliance, and financial performance.

There are several additional reasons that independence as an RIA may be attractive.

Access to the right tools
RIAs can choose the technology and platform that best suit their specific needs. The latest portfolio management and customer relationship management (CRM) systems make it easier to streamline workflows, access crucial information, and serve clients—all while adapting to an advisor’s key priorities.

Opportunity to keep commission-based business
RIAs with successful brokerage businesses don’t have to choose one model over another. With the hybrid model, advisors can offer advisory services as an RIA while keeping their commission-based business by affiliating with a third-party IBD.

Compliance options
RIAs have more options when it comes to managing compliance. They can conduct compliance in-house or turn to a third party for help, freeing up more time for clients.
Benefits of independence

Top three benefits cited by those who find the idea of becoming an RIA appealing:

1. Potential for a larger income
2. Freedom that comes with running your own business
3. Ability to prioritize client needs and customize client service and communications

“It’s really about the freedom to make decisions—not only for the business, but for your clients.”

—Colin Higgins
The Golub Group
Putting clients first

For advisors, acting in their clients’ best interests is a key principle. But pressure to sell particular products or deliver returns to shareholders can take priority in some firms. Independent RIA firms face no such pressures. They have the freedom to put clients and their goals above all else.

Karen McCloskey, principal and founder of CMH Wealth Management in North Hampton, New Hampshire, appreciates the difference. Formerly a bank employee, she now runs her own RIA firm. “Our independence benefits clients every day because I can act on their needs, their instructions, and what’s going on in the world around us,” she says. “I can make that adjustment without having to go and get layers of approval.”

A Schwab advisor survey revealed that 89% of non-RIA advisors say they feel more committed to their clients than to a firm. In fact, on average, 79% of clients make the jump with advisors when they turn independent.

The numbers agree. In a Schwab study, the median firm increased its client base by 5.5% annually between 2011 and 2015, with average client size ranging from $930,000 at smaller firms to $3 million at larger firms. Firms across the study added between 28% and 50% more clients over the past five years. As a result, since the market lows of 2009, the top quarter of participating advisors have doubled their revenues, and half have doubled their assets under management (AUM). The RIA model tends to create a special kind of advisor-client relationship because:

- **It offers transparency.** Advisors are more forthcoming with their fees, giving clients a clearer picture of what they’re paying.
- **Advisors can offer unfiltered advice.** They’re under no obligation to sell proprietary products and can choose the solutions they think are best for their clients.
- **Investments are chosen for only one reason—to help fulfill clients’ goals.**

“Advice is the most important thing you offer to your clients,” says Leo Arms, who owns Thomas Leo Advisory, an RIA firm in Minneapolis. “They can get the transaction at many different places.” The role of an independent RIA, he says, is to listen to what clients need, help them, offer advice, and “ultimately be compensated for the advice you offer.”
Finding the right fit

Understanding the differences between RIA models
The advisor landscape is rapidly changing, and advisors have more options for levels of independence than ever before. But before making a choice, advisors should decide exactly who they want to be.

There’s no right or wrong way to go independent as an RIA. Different models appeal to different personalities and aspirations.

Some advisors envision themselves in the driver’s seat and relish the idea of building a firm from the ground up. Others want to control their own revenue and set their own hours but aren’t crazy about negotiating contracts with multiple vendors for office and technology support. And some just want more flexibility in their client relationships but don’t want to run a business.

Fortunately, the RIA channel has matured dramatically in recent years, as thousands of advisors have successfully chosen the well-worn path to independence. The transition no longer requires a leap of faith. Regardless of the option chosen, an advisor can leverage available resources and support to help with the transition.

Advisors considering independence have five models to choose from.
There’s no cookie-cutter approach to going independent. 

What kind of model fits you?

1. Pure independence

“I want the freedom to run the business my way.”

What is it?
The advisor opens a firm and maintains full control of the business.

Priorities
- Full control
- Maximizing potential income
- Freedom and flexibility

Structure
The RIA is the true business owner. He or she decides which vendors and products best fit the business and makes all the necessary arrangements. This includes everything from hiring the cleaning service to establishing a brand identity and company culture. The advisor is responsible for all expenses.

Custodians like Schwab often offer consulting support, introducing advisors to third-party vendors to help with office setup, compliance, technology, and more.

Main benefits
Owners have full control, keep 100% of the revenue, and can run the business however they want. The RIA also earns 100% of the equity that the firm builds through the years—which may pay off upon retirement.

Other considerations
This model can also work well for multiple advisors entering into a formal partnership, provided the advisors have complementary strengths.

2. Independence with support

“I want to be the boss, but I don’t want to deal with all the details.”

What is it?
The advisor opens a firm but uses the services of a platform provider for help.

Priorities
- Full ownership
- High potential revenue
- Hassle-free operations

Structure
The RIA still makes most of the decisions but hires a platform provider to provide à la carte services. These services may relate to compliance, technology, reporting, financing, or office setup, depending on the arrangement. The platform provider contracts with all the vendors but provides some flexibility in vendor choice. The advisor pays a platform fee for the services and is responsible for all expenses.

Custodians like Schwab often offer consulting support, introducing advisors to third-party vendors to help with office setup, compliance, technology, and more.

Main benefits
The advisor has full control over the business but with fewer decision-making hassles. Notably, the platform provider doesn’t take any ownership stake, so the RIA still receives 100% of equity as the firm grows.

Other considerations
It’s relatively simple for advisors to transition from this model to full independence should they want more control.
### Affiliation with a financial partner

“*I’m willing to trade some control for financial support.*”

**What is it?**
The advisor opens a firm with the help of a financial partner who invests in the business.

**Priorities**
- Up-front payout
- Easy transition
- Freedom to focus on clients

**Structure**
An advisor sells a portion of the revenue stream at a multiple to a holding company, which buys a majority or minority stake in the firm. This in effect monetizes part of the advisor’s book. The advisor can take the payout in cash, in partial equity, or in some combination of the two. The financial deal is similar to a wirehouse relationship but typically offers a better upside for the advisor.

**Main benefits**
The advisor receives cash up front, along with the potential for additional payouts as the business grows—typically in years three and six. The transition is also relatively easy, as the holding company handles most of the setup work. This gives advisors more time to help clients achieve their goals.

**Other considerations**
This is a popular model among advisors nearing the end of their careers who want to cash out and enjoy their retirement and for advisors who want a lump sum to help pay off a loan. It’s also a good option for succession planning, as it allows a firm to cash out an experienced partner while ceding the business to younger partners.

### Setting up a business as part of an established firm or group

“*I want to be independent but not necessarily self-employed.*”

**What is it?**
The advisor opens a new office for an established firm and becomes an employee of the firm or group.

**Priorities**
- Freedom to focus on clients and business development
- Infrastructure support
- Work-life balance

**Structure**
As with the financial partner model, advisors enter into a financial deal and structure similar to a wirehouse. They join an established brand and gain access to the firm’s built-in infrastructure, which may include technology, compliance, and more. One crucial difference, however, is the ownership structure, as advisors in this model typically acquire an equity stake in the parent company.

**Main benefits**
Advisors have more flexibility in client communications and product choice than do wirehouse advisors. They also have the potential to earn more, depending on the terms of the deal. And because someone else handles the operational details, advisors can devote most of their attention to their clients.

**Other considerations**
The firm’s existing infrastructure and support make the transition relatively easy for wirehouse advisors. Succession planning is also simple compared with some other models, as the parameters are already defined.
Can I keep my commission-based business?

Many advisors who receive revenue from commission-based business don’t want to give it up when becoming an RIA. To keep a foot in both worlds, they may choose one of two hybrid models.

• Dually registered: The advisor starts or joins a fee-based RIA while affiliating with an IBD for transaction business. The advisor may have more flexibility in choosing advisory services and investment options, and may leverage IBD turnkey infrastructure or assemble a customized platform.

• Semi-captive: The advisor affiliates with a broker-dealer that has a corporate RIA and restrictions on RIA custodian access. The IBD chooses the custodian, manages and sometimes restricts investment options, and provides turnkey infrastructure and support.

The hybrid model is increasingly popular. In fact, no other channel in the industry is growing faster—the number of hybrid RIAs grew 8.0% year-over-year during the last five years.16

Choosing a hybrid model has implications for all aspects of an advisor’s business. Key considerations include:

• The degree to which offering diverse brokerage and advisory products is important to the advisor’s approach

• Long-term and short-term revenue goals

• The freedom to choose business partners and vendors

• Strategies for growing the business

• Equity ownership and whether it’s a long-term financial and business objective

Joining an existing RIA firm

“\text{I want to take smaller steps to independence.}”

What is it?
An advisor joins an existing RIA firm as an employee or potential partner.

Priorities
• Low-risk transition
• Flexibility
• Cultural fit

Structure
The structure can vary widely, depending on the existing firm. Some firms are content to split some expenses, take a percentage of the advisor’s revenue, and let the advisor work independently. Others are looking for a complementary fit, perhaps targeting advisors who run different investment models or who blend in with the firm’s culture. Financial terms are negotiated up front.

Main benefits
Advisors can negotiate the best possible terms for their situation. That could mean an up-front payout, a partnership with long-term equity, or some combination of the two. Advisors don’t have to deal with the challenges of building their own infrastructure, and they are free to interact with clients like a fully independent RIA, provided their strategy matches the firm’s.

Other considerations
In many ways, this model provides the softest landing for advisors, as they’re piggybacking on an existing firm’s success. Most advisors report a smooth transition, with minimal disruption to their practice. Culture is key, however. Advisors should do their research and find a firm with similar values and aspirations.
The economics of independence as an RIA

**RIA firms enjoy increased earning potential**
The benefits of independence are an easy sell to many advisors, but a crucial question remains: How do the economics work? Schwab uses its experience with advisors to run the numbers and shows how an independent advisor’s potential revenue compares with the wirehouse and IBD models.

In analyzing the revenue potential of the RIA model, most analysts return to the same rough numbers time and again: 40, 85, and 100. They refer to the average percentage of client fees that advisors typically earn in each channel: 40% for the wirehouse advisor, 85% for the IBD advisor, and 100% for the RIA.17

It’s important to note, however, that these percentages do not account for expenses but instead refer to the percentage of revenue under an advisor’s control.

Wirehouse advisors earn a flat rate, with the remainder of the revenue belonging to the firm. The firm then divides its share between expenses and shareholder profit. From the advisor’s perspective, expenses are fixed. On the plus side, this means wirehouse advisors don’t need to worry about paying monthly invoices or negotiating with vendors. On the downside, wirehouse advisors often end up paying for products and services they don’t use.

Advisors working in the IBD channel generally control up to 85% of their revenue. (Roughly 15% goes to broker-dealer fees.) In practice, however, they pay roughly 30% of that revenue in expenses, leaving them with 55% of the revenue—still an improved share over wirehouses.

Fully independent RIAs are in the best position to maximize their revenue. With no wirehouse or broker fees, they control 100% of their revenue. Assuming they dedicate 30% of that revenue toward expenses, that leaves them with a net compensation of 70%.

Hybrid advisors using an RIA as a custodian also tend to earn a higher payout percentage than IBDs, as they may pay broker-dealer fees only on their commission-based business. In contrast, IBDs traditionally pay broker-dealer fees on all their assets. Hybrid advisors using an RIA as a custodian typically fall between the IBD and RIA on the chart below.

### Advisor earning potential

Using $1 million in revenue as an example

<table>
<thead>
<tr>
<th></th>
<th>Wirehouse</th>
<th>IBD</th>
<th>RIA</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>$1,000,000</td>
<td>$1,000,000</td>
<td>$1,000,000</td>
</tr>
<tr>
<td><strong>Fees/expenses</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>House</td>
<td>($600,000)</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Broker-dealer fee</td>
<td>--</td>
<td>($150,000)</td>
<td>--</td>
</tr>
<tr>
<td>Expenses</td>
<td>--</td>
<td>($300,000)</td>
<td>($300,000)</td>
</tr>
<tr>
<td><strong>Payout or profit</strong></td>
<td>$400,000</td>
<td>$550,000</td>
<td>$700,000</td>
</tr>
</tbody>
</table>

Source: Schwab estimates. Hypothetical example.
If an RIA firm is well managed, advisors can often increase their payout by a few percentage points. In Schwab’s 2016 RIA Benchmarking Study, firms with the tightest expense controls reported earnings from 71% to 72%.

Schwab Advisor Services™ offers a number of practice management solutions to help advisors become more efficient and profitable. Schwab’s annual RIA Benchmarking Study, for example, captures trends and best practices in the RIA industry, based on data from participating firms. Advisors can use the study to assess where they are, where they want to go, and how soon they can get there.

Advisors can also enroll in Schwab’s Insight to Action Consulting Program, which offers RIAs hands-on support and guidance on how to successfully grow and manage their firms.

**Putting the numbers into context**

What do the percentages mean in practice?

Using its RIA Economic Discovery Tool, Schwab evaluated the potential increase in profits for a hypothetical wirehouse advisor transitioning to full independence as an RIA.

The example at left assumes the advisor is transferring $150 million in AUM and is earning an income of roughly $570,000 at the wirehouse.

After accounting for expenses (e.g., compliance, technology, and marketing) and transition costs, the analysis concluded that an RIA could potentially earn more than $1,137,000 in the first year on the same AUM.

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**Schwab RIA Economic Discovery Tool**

Advisors can use the RIA Economic Discovery Tool to evaluate how they would fare as independent RIAs. Advisors simply enter their specific data points into the tool. Using insights from Schwab’s RIA Benchmarking studies and the experiences of more than 7,500 advisors, the tool charts their potential income, profit, and business equity.

Contact a business development officer to create your customized report. To learn more about the tool, see advisorservices.schwab.com/econtool.
Business equity and succession planning

In addition to potentially earning higher incomes, owners of RIA firms also maintain another financial advantage over wirehouse advisors: equity. The RIA model allows advisors to lay the foundation for a potentially lucrative exit strategy.

RIAs have plenty of options for succession planning. They can sell the business, merge with another firm, or recruit an external or internal successor. In each case, owners can choose the outcome and financial terms that best match their goals.

There are several methods for valuing firms, but in general, multiples are higher in the RIA model than in the wirehouse and IBD channels. Recent transactions show that buyers are valuing RIA firms at four to six times cash flow for firms generating between $750,000 and $1.5 million in earnings.¹⁸ When using revenue multiples, values range between 1.5 and 3.3 times the firm’s gross revenue.¹⁹

“Part of the reason you go independent is to grow. Before, as much as you grew, the house took 60% of that growth. Now, once you have your expenses covered, it’s nice to see how every new dollar of revenue can impact your cash flow and also the value of your firm.”

—Brian Power
Gateway Advisory LLC

Wirehouse advisors, by contrast, tend to receive a negotiated percentage of their gross revenue paid out over a 3- to 5-year period. The payout generally ranges from 100% to 180% of gross revenue, with 125% to 150% being the most common. IBD firms are commonly valued between the wirehouse and RIA models because of their mix of fee-based and commission-based assets.

Combine the potential income an advisor earns in each channel with the business equity, and the financial disparity between models is even greater.

It’s also important to note that in the wirehouse model, advisors don’t get to choose who receives their book of business upon retirement. While the IBD model offers more control, the RIA model gives advisors full autonomy to decide the legacy of their firms.

Learning to manage expenses

RIA firms are in full control of expenses—they decide how much to spend on things like technology, compliance, insurance, marketing, and office setup. Unlike wirehouses and, to some degree, IBDs, RIA firms never have to pay for services they don’t use.

But keeping a tight leash on expenses isn’t always easy. Fortunately, Schwab offers ongoing practice management solutions, including programs and consultants to help RIA firms learn how to efficiently manage costs, create capacity, and become more productive and profitable.
Understanding startup costs

Once an advisor decides to go independent, more practical matters loom: How much will it cost, and how will I manage this?

Schwab can help advisors answer this and other cost questions, with tools to help estimate and track startup costs for an RIA firm and forecast expenses for the first few years. Schwab can also connect advisors to third-party vendors for additional support and offers a Business Startup Solutions program to help advisors get started.

Here are a few questions that will influence startup costs.

- Is the advisor starting a firm or joining an existing RIA?
- What’s the current and future staffing mix? What will employees be paid?
- How much space does the firm need?
- What other infrastructure is required to open the doors?
- Is the advisor keeping his or her commission business? If so, who will the broker-dealer be?
- How will technology and trading be handled?

To provide a sense of likely startup costs, the hypotheticals below reflect conversations with advisors who recently made the switch.

Keep in mind that costs can vary widely based on the size of the team, the complexity of the offer, and which services the advisor chooses to outsource. Many of these decisions involve trade-offs. For example, choosing to keep most services in-house saves in up-front costs but takes up valuable staff time.

Projected startup costs for transitioning wirehouse advisors

<table>
<thead>
<tr>
<th>$15,000–$35,000</th>
<th>$35,000–$75,000</th>
<th>$75,000+</th>
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<tbody>
<tr>
<td>Typical of firms with less than $100 million in AUM, with a single owner and no staff</td>
<td>Typical of firms with less than $250 million in AUM, with one owner and one or two staff members</td>
<td>Typical of larger, more complex firms with multiple staff members and owners</td>
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</table>

**Major considerations:**
- Technology sophistication, level of up-front legal support, initial branding impact, and choice of office space (home office, corporate office suite, standalone office lease)
- Technology and benefits outsourcing, initial branding impact, and choice of office space (corporate office suite versus standalone office lease)
- Technology and benefits outsourcing, initial branding impact and website sophistication, office location, and buy-versus-lease decisions on equipment

Note: Advisors transitioning from the IBD channel have most of their infrastructure in place already. Their expenses are typically limited to technology, rebranding, and legal assistance. Assuming average legal support, transition costs range from $15,000 to $30,000, based on the level of technology and branding sophistication the advisor elects.

Source: Schwab RIA Economic Discovery Tool.
Implications of accepting a bonus

Particularly in times of industry turmoil, some advisors are offered retention packages and signing bonuses structured as forgivable loans. Secured by promissory notes and paid out over a defined period, these seemingly lucrative offers can be hard to pass up. But many advisors who have signed such deals may not fully understand the legal, tax, and financial implications of these agreements.

In general, such signing bonuses and retention packages come with extended repayment terms. These typically average from five to nine years, depending on the firm. Programs vary, but most share a few key features:

- The forgiveness of the retention amount typically depends on achieving some benchmark level of production over time.
- Not all of the bonus or retention money is paid up front, but rather is predicated on future production targets.
- The financial advisor is required to stay with the firm until the end of the contract to be relieved of all repayment obligations.

To understand the fine-print details of the contract and the tax implications, advisors should consult legal counsel before signing an agreement.

Sunset programs

Another technique, sometimes called sunsetting, is designed to encourage successful advisors to join a firm late in their careers or to stay with a firm until retirement. The advisor agrees to pass along his or her book of business to a teammate in the same firm in exchange for a share of that business at retirement. While seemingly attractive, sunset programs may restrict advisors’ choices when transferring their book of business.

By contrast, advisors with equity in their firms often have more exit options and may earn more from selling their businesses than from a potentially more secure—but more restrictive—sunset program.

Consider long-term value when evaluating your options

Assume that a hypothetical advisor pays off an outstanding forgivable loan with a balance of $1.2 million. Based on the incremental income the advisor can generate in a move to the RIA model, the advisor can break even in a little less than two years. The chart here also illustrates the advisor’s potential cumulative income in the RIA scenario, showing significant growth year-over-year. Not shown is the increase in the advisor’s enterprise value as he or she continues to build equity in the growing firm.

Source: Schwab RIA Economic Discovery Tool. Assumptions: $150 million in AUM, 1 owner/1 employee, 100% fee-based. Hypothetical example. The results generated by the RIA Economic Discovery Tool are limited as set forth in the Terms, Conditions, and Assumptions. The scenarios and alternatives covered are not exhaustive and may not be representative of those you actually encounter. Moreover, the simulated pro forma results are materially dependent on various assumptions and inputs, some of which are made and specified by you and some of which are static.
It's easy for new advisors to think of custodians in purely functional terms. But a good custodian can be an RIA's best friend and biggest advocate. Custodians can provide access to a wide range of financial products, technology options, educational resources, and business consultants. Consultants work closely with advisors to help them develop a successful business strategy. Custodians also provide thought leadership and industry insights.

Moreover, custodians play an integral role in helping RIA firms serve their clients. A good custodian isn’t merely a consultant; it's an ally in the advisor’s success.

Given the importance of the relationship, advisors should thoroughly evaluate their options before choosing a custodian—keeping in mind that they can freely move from one custodian to another and can choose only the services they want.

The custodian acts as an extension of the RIA

RIA custodians do much more than simply hold client assets. They can also provide a range of investment and banking products, business management, technology, and service support to RIA firms.
Schwab Advisor Services™

Schwab helped pioneer the RIA industry when it launched its custody services more than 30 years ago, and it has led the evolution of the model ever since. With more than $1.3 trillion in client assets, Schwab Advisor Services is the market leader in RIA custodianship. In fact, more independent investment advisors work with and entrust more assets to Schwab than any other custodian in the industry. Schwab offers a full menu of services for RIA firms as part of our longtime commitment to—and vision for—indisputable advisors and the future of the RIA channel.

While launching a new RIA firm can be exciting, it can also be intimidating, especially for advisors who have no experience running their own businesses. Schwab’s business consulting team can ease an advisor’s concerns by providing critical expertise on key business issues.

Management consulting
Managing a successful transition is just one of many factors that contribute to the success of an RIA firm. Schwab consultants help advisors see the big picture and create a holistic business strategy—including developing and implementing solutions to help scale the business, accelerate firm growth, and create a potentially profitable, sustainable model for the firm’s future.

Technology and operations consulting
Schwab consultants can help advisors streamline operations by analyzing the effectiveness of the firm’s back office; identifying opportunities for improvement; and developing solutions to improve the systems, processes, and workflows that are fundamental to a firm’s success.

Compliance resources
Schwab connects advisors to third-party resources for compliance support, including consulting, insurance, recordkeeping, and software.

RIA Benchmarking Study
This powerful business-planning tool gives RIA firms access to insights and best practices from their colleagues in the RIA industry, helping them make informed decisions about how to build the business. Participating firms receive a comprehensive analysis of their firm’s performance and how it compares with their peers’, including insights into strategy, business development, financial performance, and more.

Insight to Action Consulting Programs
Our business consultants help advisors identify and address key issues that can affect a firm’s success. Insight to Action Consulting Programs include workshops, an immersive curriculum, and one-on-one consulting on business strategy, marketing and business development, client segmentation, and technology strategy.

“The difference between being the client of a custodian and being an employee at a large national firm is like night and day. If you work for a firm with 10,000 advisors, you can feel like the company doesn’t pay attention to you and what you need. But when you’re a client, they’re in business to serve you.”

—M.J. Nodilo
Pathlight Investors
“There are people out there who will listen and understand your needs. You don’t have to go it alone and search for the best options without guidance.”

—David Bromelkamp
Allodium Investment Consultants
Choosing the right technology

Wirehouses and IBDs typically offer one-size-fits-all technology, with little or no customization available. Advisors working for these firms often end up paying for solutions they don’t want or use. Even more frustrating, they’re stuck with the technology package even if it doesn’t perform to their expectations.

RIAs, on the other hand, have the freedom to choose the technology they want. And they’re not restricted to one company’s technology.

Over 30 years working with and learning from advisors, Schwab has developed a flexible technology platform designed to help advisors manage their entire office—from front to back. Our platform combines our expertise and advanced proprietary tools with best-in-breed third-party solutions that provide advisors with an integrated, end-to-end solution that helps them seamlessly run their business. This customizable platform can help advisors share information, stay connected with clients, and get their approvals on the go.

With the right technology at their fingertips, it’s easier for advisors to anticipate client needs, demonstrate their value, and build the business they want.

When choosing technology, advisors should also consider the degree of support available. Schwab’s technology and operations consultants can help answer questions and provide the information advisors need to identify the right technology for their firm. Schwab can help RIAs get the most out of their technology—CRM and portfolio management, cybersecurity, mobile access, automated investment tools, and more—all today and as their needs evolve.

“One of the great things about the RIA model is that you get to pick and choose the different technology packages that you want to use for your clients, that best fit your clients’ needs.”

—Fran Hoey
Hoey Investments
Making the transition

Transitioning to independence can be intimidating. Advisors on the verge of starting, affiliating with, or joining an RIA firm often wonder about timing, costs, and legal risks, among other factors. Many are particularly concerned about how the transition will affect their clients.

Fortunately, resources are available to help advisors make the transition. Most custodians offer at least some transition support—from basic office setup to assistance through every phase of the move.

With an average tenure of more than 10 years at the company, the consultants at Schwab Advisor Transition Services® have helped nearly 2,450 advisors transition to the RIA model and moved more than $210 billion in AUM.21

Schwab tailors its transition support to an advisor’s business goals. The degree of support is up to the advisor, but it typically starts with business planning, then moves into other phases.

Schwab’s support services generally include the following:

**Building a transition plan**
Schwab appoints a business development officer to listen to an advisor’s goals, evaluate his or her needs, and build a transition plan.

**Setting up the business and back office**
Schwab offers in-house and third-party referrals to help advisors get started, including resources for technology, legal and compliance, locating office space, marketing, and more.

**Transferring client accounts**
The Schwab Advisor Transition Services team prepares the paperwork for a hassle-free asset transfer.

**Building a successful business**
Schwab’s service team and in-house consultants can help advisors operate more efficiently, take full advantage of the Schwab technology platform, and craft a long-term growth strategy.

The important thing for advisors to remember is that they’re not alone. Custodians like Schwab have helped thousands of advisors successfully make the transition to independence. It’s just a matter of deciding whether independence is the right choice.

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**Four time-tested steps to success**

1. Build a business and transition plan.
2. Launch your new firm.
3. Transfer client assets.
4. Provide ongoing support.
Getting started

Interested in learning more about your options for independence? Contact Schwab Advisor Services™ today.

877-687-4085
advisorservices.schwab.com

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linkedin.com/company/schwab-advisor-services

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@Schwab4RIAs

Also visit advisornet.schwab.com to find other Schwab resources, including:

- White papers
- Webinars
- Videos
- Case studies
- RIA Economic Discovery Tool
- The RIA Roadmap
Sources

1. The Cerulli Report: Intermediary Distribution 2016, Exhibit 2.05.
2. Ibid.
6. See note 1 above.
7. See note 4 above.
8. See note 1 above.
9. 2016 RIA Benchmarking Study from Charles Schwab, January–March 2016. Median results for all firms with $250 million or more in assets under management (AUM). Study contains self-reported data from 1,128 firms. The data were not independently verified. Participant firms represent various sizes and business models categorized into 12 peer groups—7 wealth manager groups and 5 money manager groups—by AUM size. Past performance is not an indicator of future results.
12. Ibid.
13. Ibid.
16. See note 1 above.
“When we go out and canvass our advisors that have made the move to independence, the most common response we get is, ‘I wish I had done this sooner.’”

—Brian Hamburger
MarketCounsel
About Schwab Advisor Services™

Schwab Advisor Services is the industry leader and largest custodian of RIA assets,* providing custodial, operational, practice management, and trading support to more than 7,000 independent registered investment advisor (RIA) firms. For over 30 years, Schwab Advisor Services has worked resolutely with independent advisors to develop proven processes and insights for starting, building, and growing RIA businesses. Schwab Advisor Services has a strong vision for RIAs and their future and is committed to pushing the financial advising industry forward on advisors’ behalf.

*Charles Schwab Strategy.