charles SCHWAB

Advisor Services

Exploring independence

An overview of the Registered Investment Advisor model

Own your tomorrow®

“The most rewarding aspect of being independent is knowing that we own our business. We are our brand.”

—Stephen Korving
President, Korving & Company

Freedom leads to options and opportunity

Investment 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 them 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 mainstream. Delivering genuine, unbiased investment advice is more important than ever. This is where independent investment advisors excel. Savvy clients recognize this and are moving their assets accordingly.

More and more investment advisors are seizing the opportunity to create the future they imagine for themselves and their clients. Independence offers unparalleled freedom and control. As an independent investment advisor, 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.

Why more investment advisors are choosing the RIA model

The RIA channel has been growing steadily for the past several years. As investment 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 wirehouse and IBD channels have faced declines since 2008. The number of investment advisors at wirehouses and IBDs shrank by 2.7% and 10.0%, respectively, from 2013 to 2018.[1]

Conversely, the RIA channel has shown sustained growth, adding over 12,000 investment advisors (including dually registered) from 2013 to 2018.[2] Nearly one-quarter (24%) of assets are now managed by RIA firms, up from 16% in 2008.[3] And the growth in the RIA channel has been pronounced, with its compound annual growth rate (CAGR) increasing 10% from 2014 to 2018.[4]

Many investment advisors are upbeat about the channel's future. In a Schwab survey of investment advisors at major financial firms, a clear majority of respondents (60%) prefer the RIA model over other models. Indeed, many investment advisors (37%) believe the RIA industry has not fully matured and will continue to grow at a higher rate than the market.[5]

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

They are entrepreneurs.

Many investment 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 investment advisors say they put clients first, many in the wirehouse channel feel that they are ultimately working for their firms as much as for their clients. Many investment advisors bristle at this lack of autonomy, in addition to the fees and "haircuts" that wirehouses impose on their earnings.

They want to build their own brands.

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

They want access to best-of-breed technology and support.

Some wirehouse and IBD investment 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. More and more, these investment advisors are turning to the RIA channel to find the freedom to choose the platform and services that best fit their firms' unique needs.

In addition, investment advisors are increasingly seeing that they have what it takes to be their own boss. They notice their colleagues enjoying success with the RIA model and are inspired to go into business for themselves.

"I became an independent investment advisor because this is the future."

–Amit Stavinsky
CEO, Managing Director, and Lead Advisor, Tamar Securities

7.2% CAGR
More investment advisors in the RIA channel year-over-year (2017 vs. 2018)[6]

Compound annual growth rate (CAGR)

10.1% CAGR
Increase in RIA channel assets from 2014 to 2018[7]

Wirehouse and IBD channels have shrunk annually by

1.6% CAGR

and

3.4% CAGR

respectively, since 2009[8]

61%

Median growth in RIA assets under management from 2014 ($418 million) to 2018 ($672 million)[9]

The fiduciary standard

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

Many investment advisors at RIA firms 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 Securities and Exchange Commission (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."[10] Investment advisors are required to file annual Form ADVs describing their firms' business practices and client communications. Registration with the SEC or a state regulator does not mean the information in an RIA's ADV has been verified or approved.

As one investment 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 independent investment advisors, an especially important factor in an environment where investors are increasingly wary about to whom they entrust their assets. Knowing that you are legally required to act in an investor's best interests can help you build trust and strengthen client relationships.

Independent investment advisors and other financial services professionals receive compensation for services in a variety of ways. It is the responsibility of each investor to determine which method of compensation offers the lowest total costs and best aligns the interests and needs of the investor with those of the investment professional chosen.

Choosing independence is good for business

Investment advisors cite numerous benefits to adopting the RIA model, 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 investment advisors at firms of all sizes why they found the RIA model appealing. Although the responses varied, they all shared a common theme: Investment advisors want the ability to shape their businesses and serve clients as they see fit.[11]

Client experience

While most investment advisors say they put a high priority on client relationships, the RIA model helps them deliver on that promise. Investment advisors at RIA firms can decide how to engage and communicate with clients—from building a marketing plan to creating a customized product portfolio for each client.

By contrast, some investment 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 investment advisors is tied to the products they sell. Independent investment advisors are under no such restrictions. However, investment advisors at RIA firms 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.

Autonomy

Independent investment advisors 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

Investment advisors at RIA firms determine how much of their revenue they keep—up to 100%, depending on the model of independence they choose (see page 11). 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.

There are several additional reasons that independence in the RIA channel may be attractive.

Access to the right tools

Independent investment advisors 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 investment advisor's key priorities.

Opportunity to keep commission-based business

Independent investment advisors with successful brokerage businesses don't have to choose one model over another. With the hybrid model, investment advisors can offer advisory services through their RIA firm while keeping their commission-based business by affiliating with a third-party IBD.

Compliance options

Investment advisors at RIA firms 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.

"It's really about the freedom to make decisions—not only for the business, but for your clients."

—Colin Higgins
CEO, Summitry

Benefits of independence

Investment advisors who recently started or joined an RIA firm cited these top five advantages to making the move:[12]

1. Being free to do what's best for my clients
2. Providing clients with more personalized service
3. Working for myself
4. Building business value and building equity in my firm
5. Creating my own brand

Putting clients first

For investment advisors, acting in their clients' best interests is a key principle. Investment advisors at independent RIA firms 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."

In a 2018 Schwab survey, 94% of independent investment advisors said the freedom to do what is best for their clients is the most important reason to go independent.[13] In fact, on average, 87% of clients make the jump with investment advisors when they turn independent.[14]

Study results show that investors are continuing to choose the RIA model. In Schwab's 2019 RIA Benchmarking Study, the net organic CAGR for median firms with over $250 million in assets under management (AUM) was 5.4% between 2014 and 2018. RIA firms continue to win in the marketplace, with the fastest-growing firms* averaging $68 million in net organic growth in 2018.[15] The RIA model tends to create a special kind of investment advisor-client relationship because:

- It offers transparency. Investment advisors are able to be forthcoming with their fees, giving clients a clear picture of what they're paying.
- Independent investment advisors can offer unfiltered advice. They are 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."
>
> **—Leo Arms**
> President, Thomas Leo Advisory

"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 investment advisor, he says, is to listen to what clients need, help them, offer advice, and "ultimately be compensated for the advice you offer."

*Fastest-growing firms are the top 20% of firms with $250 million or more in AUM based on five-year net organic CAGR.

Understanding the differences between RIA models

The landscape is rapidly changing, and investment advisors have more options for levels of independence than ever before. But before making a choice, investment advisors should decide exactly who they want to be.

Most independence — Least independence

1 Pure independence	2 Independence with platform provider support	3 Launching with the help of a financial partner	4 Setting up a business as part of an established firm or group	5 Joining an existing RIA firm
The investment advisor opens a firm and maintains full control of the business.	The investment advisor opens a firm but uses the services of a platform provider for help.	The investment advisor opens a firm with the help of a financial partner, who invests in the business.	The investment advisor opens a new office for an established firm and is under that firm's supervision.	An investment advisor joins an existing RIA firm as an employee, potential partner, or independent contractor.

There's no right or wrong way to go independent in the RIA channel. Different models appeal to different personalities and aspirations.

Some investment 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 investment advisors have successfully chosen the well-worn path to independence. The transition no longer requires a leap of faith. No matter what option they choose, investment advisors can leverage available resources and support to help with the transition.

Investment advisors considering independence have five models to choose from.

Finding the right fit

1 Pure independence

"I want the freedom to run the business my way."

What is it?

The investment advisor opens a firm and maintains full control of the business.

Priorities

- Full ownership
- Maximum control and responsibility
- 100% of revenue and any earned equity

Structure

The independent investment advisor is the true business owner. They decide which vendors and products best fit the business and make all the necessary arrangements. This includes everything from hiring the cleaning service to establishing a brand identity and company culture. The investment advisor is responsible for all expenses.

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

Main benefits

As RIA owners have full control, they can run the business however they want. They can keep 100% of the revenue, retain 100% of the equity the firm builds through the years, or choose to take distributions as they see fit.

Other considerations

This model can also work well for multiple investment advisors entering into a formal partnership, provided they 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 investment advisor opens a firm but uses the services of a platform provider for help.

Priorities

- Full ownership
- More time to focus on the areas of business you care about most
- 100% of the equity as your firm grows

Structure

The investment advisor 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 investment 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 investment 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 owner still receives 100% of equity as the firm grows.

Other considerations

It's relatively simple for investment advisors to transition from this model to full independence should they want more control.

3 Affiliation with a financial partner

"I'm willing to trade some control for financial support up front."

What is it?

The investment advisor opens a firm with the help of a financial partner who invests in the business.

Priorities

- Up-front payout
- Easy transition with the holding company handling most of the setup
- Ability to focus on clients

Structure

An investment 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 investment advisor's book. The investment 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 investment advisor.

Main benefits

The investment 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 investment advisors more time to help clients achieve their goals.

Other considerations

This is a popular model among investment advisors nearing the end of their careers who want to cash out and enjoy their retirement and for investment 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.

4 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 investment advisor opens a new office for an established firm and operates under that firm's supervision.

Priorities

- Freedom to focus on clients and business development
- Infrastructure support
- Greater flexibility in communications and product choice than at a traditional wirehouse or broker-dealer

Structure

As with the financial partner model, investment advisors enter into a financial deal and structure similar to a wirehouse's. 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 investment advisors in this model often acquire an equity stake in the parent company.

Main benefits

Investment advisors have more flexibility in client communications and product choice than they would at a wirehouse. They also have the potential to earn more, depending on the terms of the deal. And because someone else handles the operational details, investment advisors can devote most of their attention to their clients.

Other considerations

The firm's existing infrastructure and support make the transition from a wirehouse relatively easy. Succession planning is also simple compared with some other models because the parameters are already defined.

5 Joining an existing RIA firm

"I want to take smaller steps to independence."

What is it?

An investment advisor joins an existing RIA firm as an employee, potential partner, or independent contractor.

Priorities

- Low-risk transition without the challenge of building your own infrastructure
- Established brand
- More time to focus on clients

Structure

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

Main benefits

Investment 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. Investment advisors don't have to deal with the challenges of building their own infrastructure, and each one is free to interact with clients as a fully independent investment advisor, provided their strategy matches the firm's.

Other considerations

In many ways, this model provides the softest landing for investment advisors, as they're piggybacking on an existing firm's success. Most report a smooth transition, with minimal disruption to their practice. Culture is key, however. Investment advisors should do their research and find a firm with similar values and aspirations.

Can I keep my commission-based business?

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

- **Dually registered:** The investment advisor starts or joins a fee-based RIA firm while affiliating with an IBD for transaction business. The investment 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 investment 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 5.6% year-over-year during the last 10 years.[16]

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

- How important is offering diverse brokerage and advisory products?
- What are your long-term and short-term revenue goals?
- Do you want the freedom to choose business partners and vendors?
- What is your growth strategy?
- Is equity ownership a long-term financial and business objective?

RIA firms enjoy increased earning potential

The benefits of independence are an easy sell to many investment advisors, but a crucial question remains: How do the economics work? Schwab uses its experience with investment advisors to run the numbers and shows how an independent investment advisor's potential revenue compares with that in 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. These refer to the average percentage of client fees that investment advisors typically earn in each channel: 40% for those in a wirehouse, 85% for those in an IBD, and 100% for those in an 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 investment advisor's control.

Wirehouse investment 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 investment advisor's perspective, expenses are fixed. On the plus side, this means wirehouse investment advisors don't need to worry about paying monthly invoices or negotiating with vendors. On the downside, wirehouse investment advisors often end up paying for products and services they don't use.

Investment 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 that of wirehouses.

Fully independent investment advisors 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%.

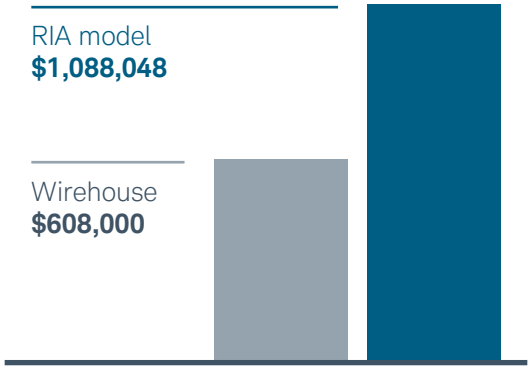
Hybrid investment advisors using an RIA as a custodian also tend to earn a higher payout percentage than IBDs, as they may pay broker-dealer fees only on their commission-based business. In contrast, IBDs traditionally pay broker-dealer fees on all their assets. Hybrid investment advisors using an RIA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

Investment advisor earning potential

Using $1 million in revenue as an example

	Wirehouse	IBD	RIA
Revenue	**$1,000,000**	**$1,000,000**	**$1,000,000**
Fees/expenses			
House	($600,000)	—	—
Broker-dealer fee	—	($150,000)	—
Expenses	—	($300,000)	($300,000)
Payout or profit	$400,000	$550,000	**$700,000**

Source: Schwab estimates. Hypothetical example.



Potential first-year profit and income

Investment advisors who switch to the RIA channel can potentially earn substantially higher net incomes compared with their current environment.

Source: Schwab RIA Economic Discovery Tool.
Assumptions: $200 million in AUM, 2 owners/2 employees, 100% fee-based. Hypothetical example.

If an RIA firm is well managed, investment advisors can often increase their payout by a few percentage points. In Schwab's 2019 RIA Benchmarking Study, firms with the highest expense controls reported overhead expenses of 30%, leaving a margin of 70% to pay their professional staff or themselves or to reinvest in the firm.

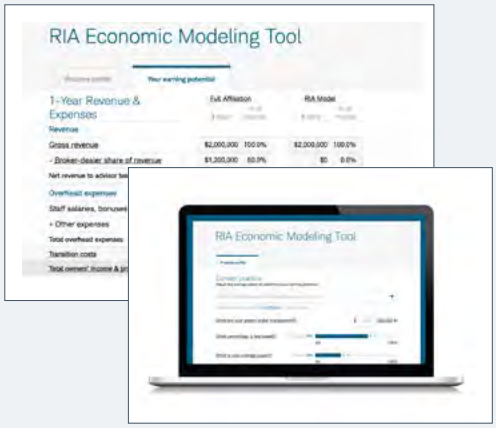
Schwab Advisor Services™ offers business and technology consulting to help independent investment advisors optimize, protect, and grow their firms. Likewise, Schwab offers a range of networking, education, and leadership programs to help RIA firms develop the skills of their own employees.

Schwab's annual RIA Benchmarking Study is a good example of the support available for independent investment advisors. It captures trends and best practices in the RIA industry, based on data from participating firms. If investment advisors choose to participate in the study, they gain key insights regarding their firm's performance through a customized report that evaluates how their firm stacks up against their peers. Investment advisors can use this study to assess where they are, where they want to go, and how they can get there.

Schwab RIA Economic Discovery Tool

Investment advisors can use the RIA Economic Discovery Tool to evaluate how they would fare by going independent. Investment 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 investment 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/econ-tools**.



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 on page 16 assumes the investment advisor is transferring $200 million in AUM and is earning an income of roughly $608,000 at the wirehouse. After accounting for expenses (i.e., compliance, technology, and marketing) and transition costs, the analysis concluded that an investment advisor at an RIA firm could potentially earn more than $1,088,048 in the first year on the same AUM.

Business equity and succession planning

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

RIA owners 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. Transaction data 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]

Wirehouse investment advisors, by contrast, tend to receive a negotiated percentage of their gross revenue paid out over a three- to five-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 investment 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, investment 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 investment advisors full autonomy to decide the legacy of their firms.

"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
Principal and Wealth Management Advisor, Gateway Advisory LLC

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. That's why Schwab offers guidance based on the experience of collaborating with more than 7,500 RIA firms to help them manage costs, create capacity, and sharpen productivity.

Understanding startup costs

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

Schwab helps investment advisors get answers with tools to help forecast and track costs during startup and the years that follow. Schwab's integrated team of professionals helps investment advisors evaluate the economics of building their business, build a strategic plan for success, and get connected with key third-party vendors along the way.

Here are a few questions that will influence startup costs:

- Am I starting a firm or joining an existing RIA?
- What's my current and future staffing mix? What will my employees be paid?
- How much space does my firm need?
- What other infrastructure is required to open the doors?
- Am I keeping my commission business? If so, who will I have as my broker-dealer?
- How will I handle trading and technology?

To provide a sense of likely startup costs, the hypotheticals below reflect conversations with investment 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 investment 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 from a wirehouse

$15,000–$35,000	$35,000–$100,000	$100,000+
Typical of firms with less than $100 million in AUM, with a single owner and no staff	Typical of firms with less than $250 million in AUM, with one owner and one or two staff members	Typical of larger, more complex firms with multiple staff members and owners
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)	**Major considerations:** Technology and benefits outsourcing, initial branding impact, and choice of office space (corporate office suite versus standalone office lease)	**Major considerations:** Technology and benefits outsourcing, initial branding impact and website sophistication, the extent of office buildout and furnishing, and buy-versus-lease decisions on equipment

Note: Investment 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 investment advisor elects.

Source: Schwab RIA Economic Discovery Tool.

Implications of accepting a bonus

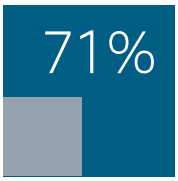
Particularly in times of industry turmoil, some investment advisors are offered retention packages and signing bonuses structured as forgivable loans. Secured by promissory notes and paid out over a defined period, these seemingly lucrative offers can be hard to pass up. But many investment advisors 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 investment 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, investment advisors should consult legal counsel before signing an agreement.

71% of respondents cited a better opportunity to earn a larger annual income as an important reason for going independent.



Source: Charles Schwab Independent Advisor Sophomore Study, 2018.

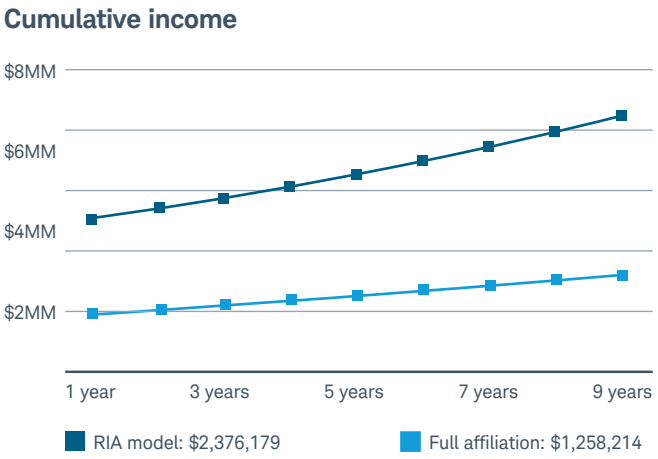
Sunset programs

Another technique, sometimes called sunsetting, is designed to encourage successful investment advisors to join a firm late in their careers or to stay with a firm until retirement. The investment advisor agrees to pass along their 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 investment advisors' choices when transferring their book of business.

By contrast, investment 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 the hypothetical firm with two investment advisors pays off a combined outstanding forgivable loan with a balance of $2.4 million. Based on the incremental income the investment advisor can generate in a move to the RIA model, the investment advisor can break even in a little less than two years. The chart here also illustrates the investment 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: $200 million in AUM, 2 owners/2 employees, 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.

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.

It's easy for new independent investment advisors to think of custodians in purely functional terms. But a good custodian can be an RIA firm's best friend and biggest advocate. Custodians can provide access to a wide range of financial products, technology options, educational resources, and business consultants. To help you weigh all your options, a custodian can make strategic introductions to platform providers. Many custodians have large networks and enterprise partnerships with leading providers.

Consultants work closely with investment advisors to help strategize for growth, optimize workflows, and protect the firm for the long run. At the same time, custodians also provide thought leadership and industry insights.

Moreover, custodians play an integral role in helping RIA firms deliver their ideal client experience. A good custodian isn't merely a consultant; it's an ally in the investment advisor's success.

Given the importance of the relationship, investment 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.

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 $1.91 trillion in client assets, Schwab Advisor Services is a market leader in RIA custodianship.[20] 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 its longtime commitment to—and vision for—independent investment advisors and the future of the RIA channel.

While launching a new RIA firm can be exciting, it can also be intimidating, especially for investment advisors who have no experience running their own businesses. Schwab helps smooth the transition process with integrated teams of professionals specializing in key business issues.

Business consulting

Schwab provides investment advisors with insights from more than 190 years of collective experience, more than 500 unique consulting engagements each year, and data from more than 7,500 RIA firms. Schwab consultants help analyze the economics of transition and design the investment advisor's ideal firm and client experience. Together, consultants and investment advisors create a strategic business plan and engage third-party providers. Then they collaborate to create and implement a client communication plan that carries through launch.

Consulting starts well before an investment advisor becomes a client of Schwab and continues as they grow.

Once an investment advisor becomes a client, they have access to ongoing practice management support programs, which can be customized and include topics such as client and employee compensation, strategic planning, and creating a referral culture.

Technology consulting

Technology plays a pivotal role in an RIA firm's success. That's why Schwab's experienced professionals assess the technologies and digital workflows required to support the investment advisor's ideal client experience. They evaluate and explore third-party providers and solutions. Then they outline the digital strategy and step-by-step plan to bring the investment advisor's vision to life and deliver support through implementation and beyond.

Compliance resources

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

RIA Benchmarking Study

This powerful tool gives RIA firms access to key business metrics, best practices, and insights from their colleagues in the RIA industry. It helps investment advisors evaluate their firm's strengths and opportunities. Participating firms receive a comprehensive analysis of their firms' performances and how they compare with their peers, along with insights into strategy, business development, and financial performance.

"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, AIF®
Regional Director/Partner, EP Wealth Advisors

"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
President and CEO,
Allodium Investment Consultants

Choosing the right technology

Wirehouses and IBDs typically offer one-size-fits-all technology, with little or no customization available. Investment 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.

Independent investment advisors, 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 of working with and learning from investment advisors, Schwab has developed a flexible technology platform designed to help investment advisors manage their entire office—from front to back. Schwab's platform combines expertise and advanced proprietary tools with best-in-breed third-party solutions that provide investment advisors with an integrated, comprehensive, end-to-end solution. This customizable platform can help investment 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 investment advisors to anticipate client needs, demonstrate their value, and build the business they want.

When choosing technology, investment advisors should also consider the degree of support available. Schwab's experienced technology professionals can help independent investment advisors map out technology configurations, engage with third-party providers, and create efficient digital workflows. Schwab can help RIA firms get the most out of their technology—CRM and portfolio management, cybersecurity, mobile access, automated investment tools, and more—both 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 best fit your clients' needs."
>
> **—Fran Hoey, CFM, CIMA®, CFP®**
> President, Hoey Investments

Making the transition

Transitioning to independence can be intimidating. Investment 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 investment 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 nine years at the company, the consultants at Schwab Advisor Transition Services® have helped over 3,200 investment advisors transition to the RIA model and moved more than $321 billion in AUM.[21]

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

Schwab's support services generally include the following:

Building a transition plan

A Schwab Business Development Officer listens to an investment advisor's goals, evaluates their needs, and builds a transition plan.

Setting up the business and back office

Schwab offers in-house and third-party introductions to help investment 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 independent investment advisors operate more efficiently, take full advantage of the Schwab technology platform, and craft a long-term growth strategy.

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

Five time-tested steps to success

- **Discover** your options and economics.
- **Plan** your business and transition.
- **Launch** your new firm.
- **Transfer** client assets.
- **Provide** ongoing support.

"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
President and CEO, MarketCounsel

Discover your own path

Start a confidential conversation to explore your options for independence.

Contact a Schwab Business Development Officer at **advisorservices.schwab.com** or call **1-877-687-4085**.

Sources

1. *The Cerulli Report, U.S. Intermediary Distribution 2019: Capitalizing on Specialization*, Exhibit 2.05, Cerulli Associates, September 4, 2019.
2. Ibid.
3. *The Cerulli Report, U.S. Intermediary Distribution 2019: Capitalizing on Specialization*, Exhibit 2.08, Cerulli Associates, September 4, 2019.
4. *The Cerulli Report, U.S. Intermediary Distribution 2019: Capitalizing on Specialization*, Exhibit 2.07, Cerulli Associates, September 4, 2019.
5. Charles Schwab Independent Advisor Outlook Study, Wave 27, November 2019.
6. See note 1 above.
7. See note 4 above.
8. See note 1 above.
9. 2019 RIA Benchmarking Study from Charles Schwab, January–March 2019. Median results for all firms with $250 million or more in assets under management (AUM). Study contains self-reported data from 1,310 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.
10. *Regulation of Investment Advisers by the U.S. Securities and Exchange Commission*, Division of Investment Management, U.S. Securities and Exchange Commission, June 2018.
11. Charles Schwab Independent Advisor Sophomore Study from Schwab Advisor Services, Koski Research, March 2018.
12. Ibid.
13. Ibid.
14. Ibid.
15. See note 9 above.
16. See note 1 above.
17. *The Cerulli Report, U.S. Advisor Metrics 2019: The Digitally-Empowered Advisor*, Exhibit 2.01, Cerulli Associates, December 18, 2019.
18. *Transition Planning: A Guide to Understanding Valuation and Deal Structure*, Schwab Market Knowledge Tools, 2012.
19. *Understanding the Value of Your Practice*, FP Transitions, 2015.
20. Cerulli Associates company reports and Charles Schwab strategy estimates, December 31, 2019.
21. ACT Advisor Conversion Services Dashboard Metrics, January 2005–December 2019.

About Schwab Advisor Services™

Schwab Advisor Services is an industry leader,* providing custodial, operational, practice management, and trading support to more than 7,500 independent RIA firms. For over 30 years, Schwab Advisor Services has worked resolutely with independent investment 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 investment advisors' behalf.

*Charles Schwab Strategy.

This information is not intended to be a substitute for specific individualized tax, legal, or investment planning advice. Where specific advice is necessary or appropriate, Schwab recommends consultation with a qualified tax advisor, CPA, financial planner, or investment manager.

Third-party firms and representatives are not affiliated with or employed by Charles Schwab & Co., Inc., and mention of them should not be construed as a recommendation, endorsement, or sponsorship by Schwab.

Experiences reflected are not a guarantee of future performance or success and may not be representative of your experience.

Schwab's annual RIA Benchmarking Study is the largest of its kind focused exclusively on RIAs. In 2019, 1,310 firms representing nearly three-quarters of a trillion dollars in AUM completed the survey, reflecting their experiences in 2019 as well as their annual growth rates from 2014 to 2019. The study categorizes participants into 12 peer groups–7 wealth manager groups and 5 money manager groups–by AUM size. The results, unless otherwise noted, include all firms with at least $250 million in AUM, representing the vast majority of total assets managed by this year's participants. All results are self-reported and not independently verified.

The **Economic Discovery Tool** (Tool) is intended solely for use by investment professionals. The Tool simulates the pro forma financial results of various hypothetical scenarios for establishing, operating, joining, and/or selling an investment advisory practice or firm and compares those simulated outcomes to various alternatives. 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. These assumptions and inputs may not reflect actual circumstances, and thus the Tool is inherently limited and intended for general informational purposes only. The simulated pro forma results do not reflect, and are not guarantees of, actual or future results. Your actual results may be materially different from those simulated. Schwab makes no warranty of the accuracy or completeness of the Tool or the simulated pro forma results and shall have no liability for your use of the Tool. The Tool is not intended to provide financial, investment, legal, tax, or regulatory compliance advice. You are urged to consult your own professional advisors.

Schwab Advisor Services™ includes the custody, trading, and support services of Charles Schwab & Co., Inc. ("Schwab"), member SIPC.

AHA (0620-0TGX) MKT75421-05 (06/20)

00247617

charles SCHWAB

Own your tomorrow.