

Destination RIA

Selecting the best business model as you pursue independence

We recently brought together an expert panel to discuss the various types of business structures that advisors should consider before initiating their transition to an independent model. Here is the advice these experts shared.

Our expert panel

- **Sean Keenan**, Director, Advisor Solutions, BNY Mellon | Pershing
- **Jim Dickson**, President and Founder, Sanctuary Wealth
- **Adam Roosevelt**, Director, Advisor Solutions, BNY Mellon | Pershing

What are the most prevalent solutions that advisors adopt as they “break away”?

- Once you’ve decided that independence is right for you, your clients and your team, it’s important to take the time to find a business and support model that will be ideal for you.
- There are a variety of options out there, but the three core models come down to:
 - Launching your own independent practice
 - Partnering with a strategic platform provider (also called outsourcing)
 - Affiliating with or joining a hybrid advisory practice (or an existing RIA)

There are trade-offs for all of these models: you have to decide which factors matter the most to you. You’re never going to find a firm that has the highest pay-out, and the highest transition dollars, and the fullest autonomy and makes the biggest investment in your business.

What does it mean to launch a purely “independent” practice?

- People who decide to run their own RIAs want to maintain absolute control of the business. Complete autonomy. They want to make all the decisions, from how the firm will operate day to day, to how it will deal with compliance and technology questions.
- Some advisors who take this route are incredibly successful. But, it’s important to recognize the trade-offs, as you’ve now become CEO, COO, CTO, human resources, and more. There’s a lot of responsibility added to your life.
- Being independent isn’t necessarily about making every decision. It’s about having the ability to market yourself, to build a brand. That’s what entrepreneurship is.

What are the key aspects of engaging a strategic partner?

- Advisors creating their own RIAs can partner with a platform provider to gain significant infrastructure support, and can access an intelligent open architecture to provide what the client needs. They also may choose to outsource some of the CFO and CEO roles.
- Partnering allows you to be “bigger than you are” and to grow the new firm quickly. Also, in turbulent times the RIA can lean on the partner, which helps to sustain growth.

- The partner can provide operational efficiencies through scale and by integrating leading third-party solutions – across CRM, financial planning, trade order management, for example. So the advisor maintains autonomy and can choose among solutions, and the partner provides an experience that is more integrated and efficient overall.
- When advisors choose to go it alone, they have so many responsibilities that business development is often the thing that suffers. So, when it comes to investing in marketing and business development, there can be a lot of value in having a partner that's co-investing in that business with you, because that's a key part of growth.

Pro forma planning tool from Pershing

Advisors considering launching a business can take advantage of Pershing's pro forma planning tool. This tool allows you to model with great accuracy the envisioned business based on such factors as: revenue potential, team composition, operating expenses, likely profit margin and even what an open market value calculation might be for the business.

What are the main characteristics of a hybrid RIA?

- A hybrid firm is a registered broker-dealer that also is a registered investment advisor, either within the same entity or operating as an affiliate.
- Advisors who affiliate with hybrids gain considerable flexibility because they can provide clients with some combination of brokerage accounts, non-discretionary advisory services, and discretionary asset management services. Among the options available from a hybrid organization might be investment banking services, insurance and various share classes of alternative investments.

- Hybrids give advisors the ability to provide insurance and investment banking services, to deliver different share classes of alternative investments, and to access a wide range of additional services to serve a broad range of clients.
- This broad “toolbox” of options can be very appealing to breakaway advisors who want significant flexibility in their practices, but also want to preserve the end-to-end operational support model they've grown accustomed to at the wirehouses.

Will fewer advisors be stepping onto the independent path due to the pandemic?

Actually, the industry is likely to see an even stronger current towards independence. Advisors have had time to ponder their situations and look deeply at their options and are questioning what they're doing more strongly than ever.

Many have realized that they're not getting enough value for the financial “tax” they pay to a wirehouse. They are looking at the RIA space with the realization that they can gain freedom and flexibility, while having access to systems that work better than those they're currently using.

In the future, we might look back at today as the point where the teeter-totter that had been tilting toward independent models finally went all the way.

Interested in learning more?

Visit pershing.com/breakaway or call a Business Development Officer at (800) 445-4467

© 2020 Advisor Solutions. Advisor Solutions refers to the brokerage services business of Pershing Advisor Solutions LLC and/or the bank custody solutions business of BNY Mellon, N.A.

Pershing Advisor Solutions LLC, member FINRA, SIPC, is a subsidiary of The Bank of New York Mellon Corporation (BNY Mellon). Clearing, brokerage custody or other related services may be provided by Pershing LLC, member FINRA, NYSE, SIPC. Pershing Advisor Solutions relies on its affiliate Pershing LLC to provide execution services. Bank custody and private banking solutions are provided by BNY Mellon, National Association (BNY Mellon, N.A.), member FDIC, a wholly owned subsidiary of The Bank of New York Mellon Corporation.

Pershing LLC, Pershing Advisor Solutions LLC and BNY Mellon, N.A. Bank Custody Solutions do not provide investment advice. Affiliated investment advisory services, if offered, are provided by Lockwood Advisors, Inc. (Lockwood), a Pershing affiliate and an investment adviser registered in the United States under the Investment Advisers Act of 1940.

For professional use only. Not intended for use by the general public. Trademark(s) belong to their respective owners.

pershing.com

One Pershing Plaza, Jersey City, NJ 07399