BNY MELLON | PERSHING

Starting the Journey Towards a Better Future

Critical factors financial advisors need to address as they consider a move toward independence

Recently, an expert panel came together to discuss the ongoing trend toward the RIA model and what financial advisors should know as they weigh their options for pursuing independence. Here are the most compelling points shared by experts.

Our expert panel

- **Charlie Cornett**, Director, Advisor Solutions, BNY Mellon | Pershing
- **John Furey**, Founder of Advisor Growth Strategies
- **Louis Diamond**, Diamond Consultants

What is driving so many advisors to consider independence?

- It's a perfect storm. Wirehouses – which is where most breakaways are coming from – are taking more control from advisors, whether that involves marketing, compliance or how advisors can work with clients. There is a move to standardize how business is done, and this cookie-cutter approach is the polar opposite of the kind of flexibility and client customization afforded by independent business models.

- In an uncertain environment like the one we're in now, an advisor who is independent can evolve the client experience – which is good for both advisor and client – and that's very hard to do in a business structure with top-down control, such as a wirehouse.

What does "independence" mean in practice?

- Independence in the RIA space mainly means independent ownership of – and control over – the business. You're not independent of regulators. You have the limitations imposed by technology and other realities of running the business. But, independence gives you control over critical business decisions involving location, staff, technology tools, service model, marketing and branding.

- You have the ability to build your firm in your image. It starts with the client experience and your pricing model, and manifests in your control over nearly every aspect of the business. You're building the entity to fit your vision and the way you want to grow it.

How do you know if you've got what it takes to run an independent firm?

- Most advisors *could* operate an independent business. But, the most successful are those with a *burning desire* to be the CEO of their own business. It takes a lot of work and time – and many sleepless nights – to build the business.

- Many advisors have determined that achieving independence and gaining control are worth the effort, but others may well choose to stay employees of a wirehouse or another brokerage firm.

What are the typical economics of an independent firm?

- As a business owner, your decisions drive the economics. You build your own financial statement – profit and loss, the team and how they are paid, everything. Every expense you incur is your choice: you have control over what your take-home pay is.
- Assuming you're a good, reasonable operator, then you can manage your overhead to about 30% or 35%of revenue. So, the main difference in economics is that you keep the profits, rather than the wirehouse, broker-dealer or bank. That's your return on being willing to take the risk.
- When advisors are surveyed about going independent, they tend to rank economics near the top of their motivators. But, it has to be about much more than that. A lot advisors would be disappointed with the end result if they were not fueled by things.

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 growth opportunities come with going independent?

- There are significant opportunities to grow in ways that might not be possible in your current organization, which may only allow you to drive revenue from product commissions or advisory fees.
- Independent advisors can choose to offer planning and consulting services, family office support, tax preparation and any other relevant other services.
- You can make certain client segments a priority, such as up-and-coming investors who might not yet have significant assets, or international clients, assuming you partner with a firm that can support offshore relationships.

What are the trade-offs between starting a firm or joining an existing independent firm?

- If you want the benefits of independence but are less interested in actually operating your firm, then joining a firm – "supported independence" – could be a solution.
- In terms of economics, there is typically a five-year payback period between where it makes sense to get a deal from a major firm versus starting your own firm.
- This is not an either-or proposition – but more like a continuum. There may be factors that you want to control fully and operate, but other factors can be outsourced to another entity. This lets you focus on activities you want to shape, and to spend more time working with clients.

If I were to take this step, how would I explain it to my clients?

- If you're motivated to work as a fiduciary for your clients – and have felt hindered in your current organization – you have a very powerful message to share about creating a culture that puts clients at the center of the equation. This resonates very well.
- We've seen that a large percentage of clients and assets will move with their advisor in a breakaway scenario. This is definitely a relationship business and always will be.

Interested in learning more?
Visit pershing.com/breakaway or call a
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