

The First Steps

For breakaway RIA firms, clients, culture and business fundamentals are top priorities

Registered Investment Advisor (RIA) firms often are born from inspiring goals: to pursue greater personal independence, to forge stronger client partnerships, or perhaps to build a successful enterprise. Those making the leap to independence must consider many factors as they plan for a seamless transition. And yet, despite the unique process each advisory firm executes to become independent, much of their efforts involve “getting down to the basics”—clients, culture and business fundamentals.

More than 400 teams broke away from their existing financial institutions in 2016 to form independent registered investment advisory firms.* To explore this trend further, we interviewed leaders of three successful breakaway firms to create a three-part video series about going independent—“Secrets Behind Success.”

The second video in this series—Making the Break—focuses on the transition from being part of a vast financial organization to launching into the uncharted waters of forming their own RIA firms. While no two breakaway firms are entirely alike, they are similar in that they put the right team in place to ensure a successful transition, and they avoid common pitfalls in the process. We learned that these firms focused on three key priorities:

Nailing Down Business Fundamentals. Being a business owner is complicated. There’s a lot of work required just to get rolling—recruiting, creating an office, setting up comp and benefits programs, and many other tasks. Firm owners also must decide which activities will be done by the core team, and which will be performed by strategic partners. Jack Petersen, Founder and Managing Partner of Summit Trail Advisors, described the breathtaking pace of activities as he launched his firm—with five co-founders and three offices to open. When newly-independent advisory firms execute these fundamentals efficiently, they’re in a good position to get business ticking along.

Retaining Existing Clients. Advisors often worry that their move to independence will cause them to lose existing

clients. Yet, what we frequently see at Pershing is that nearly all clients stay on with the advisor at the new firm—and may even ramp up referrals and entrust more investment dollars with them. Margaret Dechant, CEO and Partner of 6 Meridian, told us about her firm’s carefully planned and orchestrated outreach to clients—which led to a high retention rate.

Creating the Right Culture. One key to a successful transition is having the right team. In the short term, the focus might be on executing hundreds of decisions to get up and running. But, more importantly, leaders of the breakaway must articulate what the culture of the new firm will be like—what’s most important, how team members will work together, and how clients will be treated. Michael Piotrowicz, President and Senior Client Advisor of Legacy Advisors, noted that the independent model had the desirable effect of placing advisors right next to the client, which reinforces a firm culture that prioritizes lifetime planning as well as asset management.

On this last point, some breakaway firms launch their new businesses with such a frenzy of activity that key elements of their firm culture are not formally defined. Here are some common pitfalls that we often see in newly created firms:

Saying Yes to Everything. When a firm is striving to retain clients it can be tempting to agree to every request, even if it requires one-off processes or skinnies down margins. Firm leaders must clearly articulate the core values that guide operational integrity and profitability—so that people can please clients while also ensuring the firm’s vitality.

Overemphasizing Growth. Firms who have recently gone independent are often eager to grow the business, sometimes responding to agreed-upon growth targets. This is great, so long as the firm has made it clear what kind of clients they are seeking and will be gearing its processes and systems to support. The cultural touchstone should be quality clients, not just more clients.

Leaving Things Loose. Sometimes the principals of a breakaway firm believe that “leading by example” will be enough to drive behavior in their organizations. But, the reality is that people can misinterpret signals and wind up moving in the wrong direction. Spending time on a simple

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mission statement—one that describes a handful of core values—can help to clarify what the new firm is all about and create early alignment that sets a positive trajectory for the future.

In addition to this video about the transition to independence, you also might enjoy the first video in our Secrets Behind Success video series, which describes the catalyst that drives certain advisors to consider independence.

Stay tuned for more videos in this series, which highlight critical topics impacting leading advisory firms today.

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Ben Harrison is a Managing Director for Pershing Advisor Solutions, a BNY Mellon company. Ben is head of Business Development and Relationship Management and a member of the Executive Committee for Pershing Advisor Solutions. Previously, he led business development for advisory marketplace solutions on the West Coast.

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