



Navigating the RIA Landscape:
What is Fueling the Growth of the RIA Hybrid?

SUMMIT 

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Navigating the RIA Landscape:

What is Fueling the Growth of the RIA Hybrid?

Research shows financial advisors are gravitating to the RIA hybrid model to grow their businesses and service their clients. To meet this demand, broker-dealers are leveraging the RIA hybrid to fuel growth and retain advisors.

What is attracting advisors to the hybrid platform over the options of working for a broker-dealer's corporate RIA, establishing or joining an existing RIA-only firm?

According to Cerulli Associates, as reported by *InvestmentNews*, the numbers from 2011 illustrate the growth of the RIA and RIA hybrid combined.



By the end of 2014, RIA and RIA hybrid channels combined should account for **24.7% of the assets in the wealth management market***.

The table below compares growth between RIA Hybrids and Traditional RIAs**.

Channel Type	Headcount Growth	Asset Growth
RIA Hybrid	6.9%	\$921 Billion
Traditional RIA	3%	\$1.4 Trillion

*May 5, 2013, *InvestmentNews*

**November 27, 2012, *InvestmentNews*

Defining the Options

There are three different RIA business models. How the advisor decides to conduct his or her business will determine which model best aligns with their goals.

Broker-Dealer and Corporate RIA Model (Full-Service):

In today's marketplace, the majority of financial advisors are affiliated with a broker-dealer and operate under their broker-dealer's corporate RIA as an Investment Advisor Representative (IAR). In the full-service model, in almost all cases, the clearing firm and custodian are fully integrated, allowing the financial advisor to utilize their broker-dealer for commission and fee-based services. The full-service model is the more integrated and streamlined model when utilizing a broker-dealer relationship.

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Whether choosing to work as an employee or an independent advisor of the broker-dealer, both sets of advisors carry a series 6 and/or 7 license, are regulated under FINRA and may conduct fee-based (advisory) business as an IAR (66 or 65 license) using their broker-dealer's corporate RIA. The full-service model is primarily the only permissible model for wirehouse, regional and financial institution affiliated advisors. Additionally, some of the independent broker-dealers still prohibit their advisors from using an outside RIA.

The full-service model is a turnkey solution for the advisor who wants to run a commission-based and fee-based practice with the overall support and guidance of the broker-dealer.

Benefits of the Full-Service Model:

- Advisors can offer clients a variety of investment products, managed accounts or packaged products on either a commission or fee basis.
- The broker-dealer provides complete and comprehensive support with compliance, technology, advisory guidance, research, reporting, client account billing and back office assistance.
- Since the clearing firm and custodian are fully integrated (in almost all cases), technology is cohesive for the ease of trading, client reporting and operational support.
- The independent advisor under this model is able to create a unique brand, marketing materials and office space to reflect his or her business style.

The Registered Investment Advisor Model (RIA-Only):

Establishing an RIA-only model offers the financial advisor the highest level of independence in running the business, along with the challenges and risks therein.

RIAs are not affiliated with a broker-dealer. Instead, they use third-party custodians to hold assets, process trades, provide client account services, technology solutions, practice consulting and additional client and advisory services.

The advisor operating under the RIA-only model provides an advisory business of fee-based asset management as well as fee-based financial planning. The advisor has a series 65 (or 66) license and is regulated by the Securities and Exchange Commission (SEC) or the applicable state securities regulatory authorities. (The advisor is not permitted to carry a series 6 or 7 license.) Additionally, an advisor with a professional designation such as a CFP, CFA, PFS, ChFC, CIC, may receive state exemption from the series 65 license requirement.

Benefits of the RIA-Only Model:

- Advisors establishing an RIA-only practice fully embrace the philosophies of entrepreneurship and prefer to think like an owner, even with the inherent risks and challenges therein.

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- Establishing an RIA means the advisor is responsible for managing compliance, asset management, billing, research, portfolio rebalancing among other infrastructure and client support services. Additionally, the advisor elects their primary or multiple custodian relation(s) as well as control of everything from office set-up, hiring of support staff, technology selection, creating and implementing a marketing strategy and creating a vision for customer care.
- The advisor joining this type of RIA, takes a holistic approach to servicing clients with a fee-only practice and leverages an already established infrastructure.

RIA Hybrid Model (Hybrid):

To draw an analogy, if the full-service model is the mainland and the RIA-only model is an island, the open architecture of the RIA hybrid could be considered the bridge between the two.

Under the hybrid model, the financial advisor is affiliated with a broker-dealer for their commissionable business and conducts fee-based business through an outside RIA. Maintaining a broker-dealer affiliation allows advisors to provide clients with commissionable products such as mutual funds, variable annuities, stocks and bonds.

Independent broker-dealers are the first to embrace the hybrid model, permitting their financial advisors to own their own RIA. The broker-dealer affiliation also allows the advisor to retain their series 6 or 7 securities licenses, among others.

Benefits of the Hybrid Model:

- Advisors gain the flexibility to offer clients both commissionable and fee-based services.
- The advisor can leverage the broker-dealer's compliance and technology infrastructures, in addition to the services and technology offered through a custodian.
- In addition to the RIA-only benefits previously mentioned, owning the RIA side of the business, means advisors make decisions in many areas of the operation, can choose one or more custodians, control how to invest for clients and leverage increased pricing flexibility.
- Having both a broker-dealer relationship and independent RIA increases the owners' ability to reach and recruit additional financial advisors. Under this model, solutions are provided to advisors that want to maintain a broker-dealer relationship, advisors that want to be "fee-only" and those advisors wanting both a broker-dealer and fee-based practice.

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Client Demand

Increasingly, the industry is moving away from either-or scenarios. Access to around-the-clock investment information and practical technology, accompanied with an educated client base has made the marketplace more diverse. Many clients aren't looking for fee-only or commission-only advisors. Instead, clients, especially those of higher wealth, want tailored services, customized

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portfolios and personal relationships with their financial advisors. Additionally, a solely fee-based model may restrict servicing a wider and more diverse client base.

Advisor Flexibility and Support

Many advisors prefer to offer clients a variety of fee-based and commission-based solutions. In addition, the ability to grow their businesses under diverse revenue streams and avenues of cash flow provides greater peace of mind for some. The typical hybrid advisor may prefer the support offered by the broker-dealer—including marketing, technology and compliance.

Ability to Retain Recurring Revenue

Advisors with trailing revenue on commission investment products sold will lose this income if they move to the RIA-only platform restricted to facilitating fee-based transactions. Under the hybrid model, advisors can retain the recurring revenue as compensation for products sold and capture recurring revenue on future commissionable opportunities.

Recruiting Advantage

Offering financial advisors a choice between the full-service or RIA hybrid model provides broker-dealers with a recruiting advantage. The hybrid platform was originally designed to ease the transition of a broker moving from the wirehouse to the independent space. The hybrid was seen almost as a safety net, allowing the advisor to maintain and service commission-based clients while growing the fee-based side of the business until such time as the advisor was ready to move into a traditional RIA-only platform.

However, the largest movement into the RIA hybrid model is from independent financial advisors looking for increased flexibility and client service customizations. Now, what was once seen as a stopgap to ease transition is considered the end goal.

Hybrid advisors surveyed in 2012 said they were 19% more likely to retain their dual registration on a permanent basis than in 2011.

InvestmentNews, November 27, 2012

Clearly, a growing number of advisors prefer the hybrid landscape and are rooting their businesses in the model. Trends also show some advisors breaking away from the broker-dealer's RIA to establish their own hybrid practice where a combination of fee-based and commission-based revenues can be garnered.

Broker-Dealers Retain Assets

While the RIA hybrid helps broker-dealers recruit brokers, at the same time they are also losing advisors lured by the freedom of establishing their own RIAs. Offering both commission and

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fee-based revenue streams, the RIA hybrid gives the independent broker-dealer the leverage to retain advisors and keep at least a portion of these assets under the BD umbrella. Interestingly, we are now starting to see some independent broker-dealers also allow financial advisors to only affiliate with the broker-dealer's corporate RIA (and not carry the series 6 and/or 7 licenses).

How can the RIA hybrid platform help financial advisors better serve their clients?

Advisors anecdotally share the following benefits for transitioning into the RIA hybrid model:

- *I can become my clients' one-stop-shop for investment products and advice.*
- *I can provide high-wealth clients with customized investment strategies and attract clients from a diverse group of income classes.*
- *I can leverage access to multiple custodian relationships.*
- *I can provide aging clients with in-depth investment advice and customized strategies for their unique portfolios and goals.*
- *I can offer alternative investments and insurance products.*

Although the RIA hybrid platform is growing, it is clearly not an appropriate fit for every advisor.

Who shouldn't consider practicing under the hybrid platform?

Advisors with the following concerns, would not fit the ideal profile of a successful hybrid practitioner:

1. Finds juggling two regulating bodies and the overriding compliance issues not worth the time or effort which could be better spent prospecting for new clients
2. Does not want to spend time dealing with the on-going challenge of separate custodian and clearing firm relationships
3. Current product availability and services satisfies the overall majority of the advisor's client base
4. Lacks the desire to own a business and all ownership entails
5. Present commission business represents the overall majority of the assets and revenue and is not expected to change in the future
6. Prefers to specialize in singular product or niche area

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Advisor Advice

Tom Daley, Founder and CEO of The Advisor Center, draws on his nearly 20 years of recruiting experience in the financial services industry to paint a picture of the profile of an advisor who may want to consider the RIA hybrid platform.

What is the profile of an advisor who may want to explore the RIA hybrid platform?

Deciding whether the full-service, RIA-only or RIA hybrid model is the right fit is a personal decision and requires much more time and effort than replacing the awning over the door.

For an advisor looking to grow their fee-based business or recruit advisors into their office, a move into the RIA hybrid model may present a beneficial solution. The advisor can potentially leverage greater flexibility to reach more consumers with more product choices and price latitude.

This platform should be a consideration for an advisor who enjoys either a meaningful fee-based business, wants to continue to service and maybe even grow those clients but also wants to grow or service the commission side of the business. The same is true for an advisor with a commission-based practice who is interested in expanding to fee-based services. I've talked to a number of advisors who find the RIA hybrid model is attractive for growing as well as for recruiting with the eventual succession planning in mind.

To determine if an advisor should truly explore transitioning into the hybrid model, I first have to understand their current situation on an emotional, professional and financial level. I always encourage the potential recruit to take a deep dive and ask themselves a number of key questions.

1. What do I want to accomplish? Why do I feel I may not be able to achieve these goals under my current business model?
2. Where am I in my business life cycle? How would making this transition and/or changing my practice impact my lifestyle?
3. Am I happy with my current status quo and willing to maintain this pace? Or, do I want more?
4. Is this good for my clients? Will expanding my services truly translate into growth? Is that something they are interested in?
5. If I want to grow through the attainment of new clients, what types of clients do I want to attract? How will I do that?
6. Does the ability to grow actually require a change of platform or broker-dealer? Or will the improvement of my current personal business practices allow for the growth I'm looking for?

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7. If I believe I need to make a change, am I ready to put in the time and effort?
8. Do I know the numbers in my own book of business? What are my fee-based assets under management, commission assets under management? What is my fee-based revenue and my commission-based revenue? What percentage of my overall revenue is recurring? Lastly, how many clients do I service under my fee-based model and how many am I serving on the commission side?

Advisor Case Study #1 (Full-Service Advisor Moving to Hybrid Model)

I recently spoke with an IAR advisor who had \$75 million in overall assets under management and was in a growth mode with his broker-dealer. He began to explore the RIA hybrid model as a way to accelerate growth. Upon further self-discovery and due diligence, he decided to rely on the resources currently provided by his broker-dealer, to focus on areas where he could grow where he was, rather than taking on the distraction of starting his own RIA hybrid.

Advisor Case Study #2 (RIA-Only Advisor Considering Full-Service or Hybrid Model)

Last year, I discussed the RIA hybrid model with an RIA-only advisor who had built her successful practice around a niche market. Although she was continually growing, an emerging class of alternative investment products and services had caught her attention. Under the RIA hybrid model she would have the freedom to offer a wider variety of investments, including these new options, to her clients. She decided to explore her options further with a number of broker-dealers who could offer her the transition assistance she would need to get a series 6 or 7 license. She also began to research whether she wanted to turn her current RIA into a RIA hybrid, or if closing down her RIA and affiliating with a broker-dealer operating under the full-service model would make more sense.

Advisor Case Study #3 (Full-Service Advisor Moving to Hybrid Model)

Two and a half years ago, I worked with 12 financial advisors who were 1099 independent contractors with a broker-dealer. Their broker-dealer would not allow advisors to own or participate in an outside RIA. The group had a 65% commission business and 35% fee based business. They recognized their future growth would depend on three keys areas:

- Increasing their financial planning fees
- Growing their investment advisory assets under management
- Recruiting financial advisors into their practice

Since opening their own RIA hybrid and affiliating with an independent broker dealer:

- They have more than doubled their number of financial advisors to 25.
- Their advisory assets under management have more than tripled.

They contribute their success to the primary benefits of owning and operating their own RIA hybrid to meet their specific goals.

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The bottom line: making a change for the sake of change is expensive and it's much more than replacing the awning over the door.

Compiling due diligence, comparing options and finding objective advice can be daunting. As a registered financial advisor, any of the associations you belong to will be able to point you to needed resources. Blogs, industry publications and conferences also offer a wealth of information.

You may also want to check out The Advisor Center — the industry's largest centralized, online community where you can explore and compare opportunities efficiently and at no cost, while remaining completely anonymous.

About The Advisor Center

The Advisor Center is a revolutionary, dynamic online recruiting site empowering advisors to objectively research their career options and make targeted connections while maintaining their anonymity. The Advisor Center also provides firms with a powerful direct marketing portal and a roster of potential recruits with validated credentials. Founded by Tom Daley, a veteran financial services recruiter, The Advisor Center removes a number of obstacles from the recruiting arena to provide greater access, more confidentiality and accurate due diligence. **For more information, please visit www.theadvisorcenter.com.**