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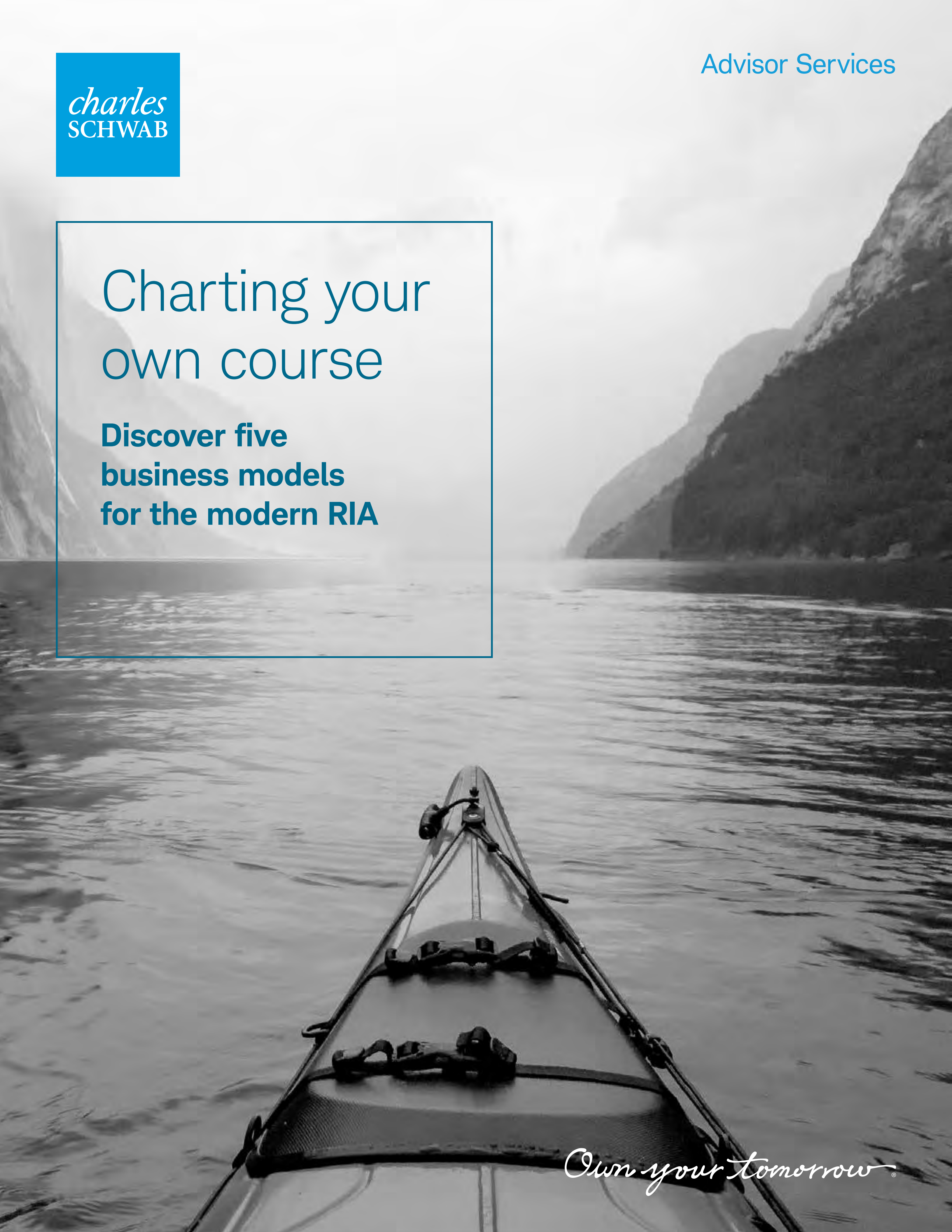


Charting your own course

Discover five business models for the modern RIA

Own your tomorrow®

"Independent advisors are committed and driven to best meet clients' needs—and investors value that."

—Tim Oden
National Managing Director of Business Development,
Schwab Advisor Services™

The time for independence is now

For years, financial advisors have sought the control that the Registered Investment Advisor (RIA) model offers. Going independent unlocks more flexibility over how advisors can serve their clients and grow their businesses. Today, the RIA channel has become more than a place to break free from traditional advice models. It's a top destination for advisors in search of a better way of doing business—one where advisors and their clients can thrive together.

In fact, while the advisor-managed asset market share in the wirehouse channel declined 7 percentage points over 10 years, the RIA channel increased 5.1 percentage points over the same period.[1] Tim Oden, national managing director of business development at Schwab Advisor Services™, sees this independent movement as more than a trend.

"I believe the RIA is the model of the future," Oden says. "And in this moment, independent investment advisors are uniquely qualified to provide superior guidance and direction—and investors value that."

DID YOU KNOW?

Clients are likely to follow their advisor

Most advisors considering independence wonder whether their clients will follow them: Many clients do. Research shows that, on average, advisors who transition to the RIA model retain 87% of their client base.[2] The great news today is that investors are more educated about the benefits of working with a fiduciary. The idea of working with an advisor who puts clients' best interests first is appealing for many clients and helps build trust.

The move that lets you serve your clients your way

Investors are shifting the way they choose financial advice. They want to work with advisors who put clients' best interests first—and they're letting their money do the talking. According to a 2019 study, new client assets at RIA firms are more than five times greater than net assets from existing clients.[3] In response, advisors are capitalizing on the opportunity in the RIA channel.

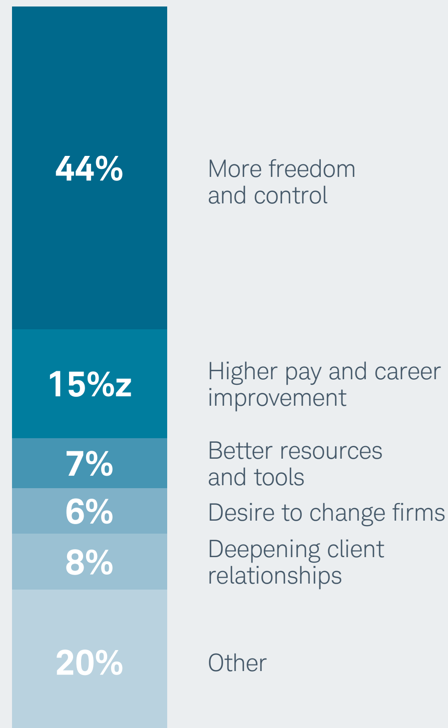
Through the RIA model, investment advisors are accessing an open architecture that enables them to select the right products for their clients. They're also customizing technology solutions and designing policies and procedures to meet their clients' needs. Advisors who go independent are seeing it as the smart, strategic move to gain more freedom and control in how they serve their clients.

Ask yourself what independence means to you

As more advisors envision their futures in the RIA model, more pathways are opening up to help them get there. No matter where they are in their careers or what they wish to accomplish, advisors can access a rich landscape of options to design the futures they want for themselves and better serve their clients. In fact, 94% of advisors who made the move believe that having the freedom to do what's best for their clients is the most important reason to go independent.[4]

Even if you've considered independence before, you're satisfied with the amount of autonomy you currently have, or you feel unsure about running a business, you owe it to yourself to explore the options available now. The financial advising industry has evolved. The RIA model has matured. The ecosystem surrounding RIAs provides a wealth of expert resources to support you at every step. Today, there are more options than ever to customize an RIA model to suit your vision.

The top reasons advisors are drawn to independence[5]



In the following pages, we'll cover insights and important questions to help you understand the five core models of modern independence, each with varying levels of ownership:

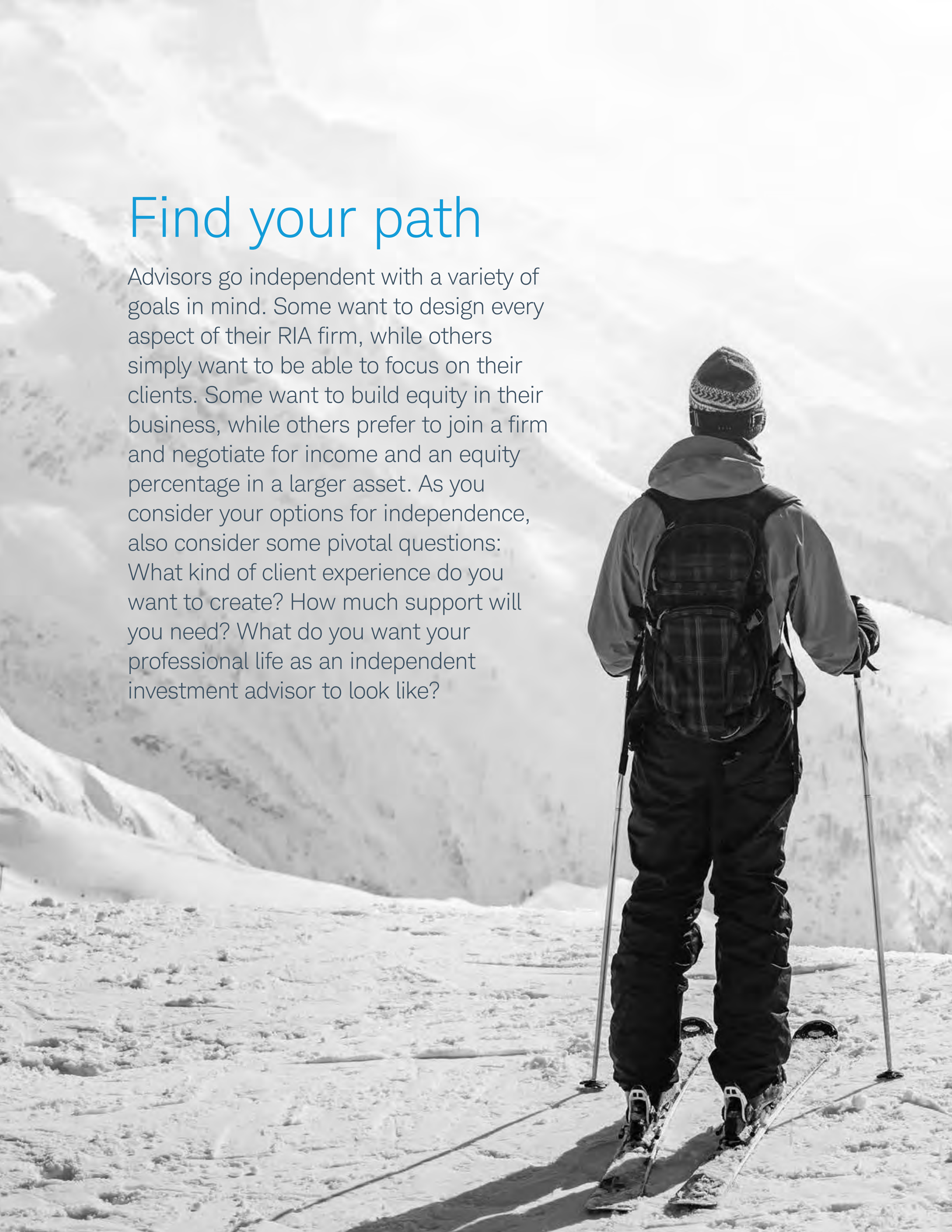
- Create your own independent RIA firm
- Outsource some RIA firm operations
- Share ownership with an equity partner
- Affiliate with an existing RIA firm
- Join an established RIA firm as an employee

DID YOU KNOW?

You can go hybrid

Regardless of the core model you choose, you have the flexibility to maintain your commission business with a hybrid RIA. With the hybrid model, you can start or join a fee-based RIA firm and affiliate with an independent broker-dealer (IBD) or act as a contractor of an IBD with a corporate RIA.

After you've learned more about the five core RIA models in this white paper, find out how commission business can fit in by reading ***Going Independent as a Hybrid RIA***.



Find your path

Advisors go independent with a variety of goals in mind. Some want to design every aspect of their RIA firm, while others simply want to be able to focus on their clients. Some want to build equity in their business, while others prefer to join a firm and negotiate for income and an equity percentage in a larger asset. As you consider your options for independence, also consider some pivotal questions: What kind of client experience do you want to create? How much support will you need? What do you want your professional life as an independent investment advisor to look like?

Do you want to:

Build and own an advisory firm based on your vision

Have total control to customize and create every aspect of your business, including technology

Create
Create your own independent RIA firm
(p. 8)

Be in control and access best-in-breed solutions but have someone else handle specific details

Outsource
Outsource some RIA firm operations
(p. 10)

Focus on your own clients while working with a support system

Establish a firm but without sole financial responsibility

Share
Share ownership with an equity partner
(p. 12)

Plug into an existing firm's culture and infrastructure

Retain some autonomy within your practice

Affiliate
Affiliate with an existing RIA firm
(p. 14)

Rely on established processes, branding, and client experience

Join
Join an established RIA firm as an employee
(p. 16)

Click the icons to go directly to the model that sparks your interest, or keep reading to explore all your options.

Create your own independent RIA firm

Absolute autonomy and ownership to realize your unique vision

The RIA model offers immense opportunities for entrepreneurial investment advisors to grow their assets and build successful RIA firms. According to Cerulli Associates, RIA assets have achieved a five-year compound annual growth rate (CAGR) of 10.1%.[6] Some advisors are even going independent with the intent to become consolidators—firms designed to scale and grow quickly.

"When I speak with advisors exploring the RIA model, they tend to be grappling with a number of issues," says Scott Cohen, managing director of business startup consulting at Schwab Advisor Services™. "How do they develop a clear business strategy? What will it cost to transition? How do they choose the best vendors for their firm?"

While it may feel overwhelming at times, having a complete picture of the firm you want to build can help give you control of your unique vision. Whether you want to grow into a nationally recognized brand or establish a local firm and serve clients your way, creating your own independent RIA gives you the power to pursue your goal.

Ask yourself:

Do you believe you can better serve your clients by designing every aspect of your firm?

Pure ownership means you have total control of the business from every angle. Investment advisors in this model start a firm, customize their client experience, and roll up their sleeves to build their own brand and company culture. Every decision—including the technology you use, your marketing strategy, and even your office aesthetic—is yours to make. You define how you want to serve clients and the kind of firm you want to become. Even with total control, you can access support for the transition. Schwab's experienced startup, transition, and technology teams have helped many advisors successfully make the move.

Do you like the idea of selecting only the operational resources that directly benefit your clients?

Owners are in charge of business operations, which include evaluating and choosing services and solutions such as customer relationship management systems, back-office technology, and compliance management. They can also work with providers and vendors to customize unique versions to meet the needs of their firms and clients. For example, when setting up for significant business growth, you'd want to make sure your technology has the capacity to scale with you. Schwab experts can help you plan for and execute such a strategy.

Are you comfortable taking on business risk in exchange for high potential rewards?

Investment advisors in this model have full firm responsibility, with all of its risks and rewards. They keep 100% of what they earn, take on the expenses, and control how revenue is reinvested back into the firm. Reinvestments can include everything from upgrading technology systems to opening a new office or acquiring another firm. Over the long term, investment advisors who take this path have the opportunity to build equity in their businesses, which they may be able to monetize down the road.

> "Our time now is much more deliberate than it was when we worked inside a big bank. Every decision—everything we do—is making sure we can benefit our clients."
>
> —**Brett Sharkey**
> Managing Director,
> Three Bridge Wealth Advisors

DID YOU KNOW?

Compliance isn't just on you

Independence doesn't mean you have to become a compliance expert. You can hire a compliance professional as an employee. Or you can outsource part of the task to save time and effort, but remember that you'll still need a chief compliance officer at your firm to act as a liaison and to have this expertise on-site.

"Once independent, investment advisors are often surprised that their fear of compliance was unsubstantiated," says Brian Hamburger, president and CEO of the compliance consultancy MarketCounsel. "It's actually about establishing an ethical culture and reinforcing the standards by which they'll define their business."

Experienced Schwab Business Development Officers can help you weigh your options and find what works best for you.

Learn more about creating your own independent RIA firm

Contact a Schwab Business Development Officer at **877-687-4085**, or keep reading to explore more paths to independence.

Outsource some RIA firm operations

Ownership with less time spent managing all the details

The RIA model gives investment advisors access to a robust and ever-evolving support ecosystem of world-class service providers. "One of the great things about the ecosystem is that entrepreneurs serve entrepreneurs," says Shirl Penney, CEO of Dynasty Financial Partners, a platform provider within the ecosystem. "It has allowed a whole new set of capabilities to be delivered to RIAs in a differentiated and very accountable way."

Platform providers such as Dynasty deliver proven solutions that investment advisors can implement to help launch and run their firms efficiently.

They supply professional management and support for technology selection, ongoing compliance, and more, as well as business strategies to help firms accelerate growth. The support ecosystem is filled with consultants and specialists. Firms of all kinds can find the business-management help they need—often backed by experts who have experience helping advisors of varying sizes transition and operate efficiently.

"Selecting the right platform partner allows an advisor to be entrepreneurial where it matters most—which is serving their clients," says Jeff Concepcion, CEO of Stratos Wealth Partners.

Ask yourself:

Does it excite you more to serve your clients or design business operations?

Ownership with support means you make fewer management decisions. Platform providers can help with many of the details or handle them outright. From the transition onward, these specialized providers can simplify business operations such as technology, reporting, investment solutions, compliance, employee training, and even securing financing for future expansion. Some platform providers can also connect you with a community of independent financial advisors who share best practices and insights. Schwab Business Development Officers can introduce you to a deep network of providers and help you find the right fit.

Would you like to leverage expert support to professionalize your business and gain more autonomy?

Platform providers can deliver more than transition assistance. Many offer the expertise to help you achieve operational excellence in how you run your firm, which can lay a solid foundation for scale and growth. Even with the extensive support of platform providers, you are still in control. Your business is your own. But your time is freed up so that you can stay laser focused on your top priorities, which may include having more face time with clients, growing your business, or recruiting employees.

Are you willing to pay a fee to outsource some operations?

Investment advisors who choose this model are willing to pay a fee for platform-provider services. The platform provider isn't likely to request an ownership stake in the business, so you still maintain 100% equity in the firm and build value over time. In fact, leveraging these advanced, best-in-class services can often better position you for growth and succession.

"Dynasty worked with us to set up payroll, HR, and insurance. They helped us go independent and be successful at independence."

—**Paul Strid**
Chief Operating Officer,
Concentus Wealth Advisors

Learn more about outsourcing some RIA firm operations

Contact a Schwab Business Development Officer at **877-687-4085**, or keep reading to explore more paths to independence.

Share ownership with an equity partner

Control—without shouldering the full cost of ownership alone

The high growth rates of the RIA channel are attracting investors—and investment capital. Investment advisors have a greater opportunity now to access seed funding for their businesses. Private equity firms and RIA aggregators are looking to obtain a partial stake in RIA firms. Some act as passive investors and are hands-off, while others provide both financial and operational support to help investment advisors run their firms.

For example, Focus Financial Partners is an equity partner that invests exclusively in fiduciary wealth management businesses and acts as a value-add investor. “There’s a comprehensive list of things we can help with without having decision-making authority, from practice management to strategic recruiting and mergers,” says Lenny Chang, Focus Financial Partners’ senior managing director. “It’s a consultative approach that creates value for the RIA and their clients.” In the future, equity partners can also help you grow inorganically or find other advisors to join your firm.

Financing and building an RIA firm enables you to monetize a piece of your business during the move.

Ask yourself:

Are you willing to trade some ownership for capital to support your firm?

When investment advisors secure capital from equity partners or private investors, they can rest easier knowing they have a financial strategy for the transition. As the firm evolves, it can be nice to know that equity partners may be there to help you scale and grow. Financial backing can also prove useful in succession planning. If you have a desire to cash out a senior partner and pass the business to younger investment advisors, equity partners can finance the deal.

Do you believe it's important to rely on outside expertise as you build your business?

Experienced equity partners can deliver more than investment capital. Some deliver firm-management support, such as help designing technology solutions, optimizing business operations, and executing on strategies for the future. The level of involvement varies by partner, so it's important to understand which areas of your firm you want investors to influence and which you want entirely in your court.

Do you find comfort in sharing business risks and rewards?

Equity partners and investors buy a portion of an investment advisor's cash flow up front and receive partial equity. The percentage is up for negotiation, and you can maintain a majority stake in the business. In this model, business risks as well as the rewards—revenue, growth, or an eventual sale—belong to both parties. In some cases, you may have the option down the road to secure full ownership of the firm by buying out the equity partners.

> "The biggest benefit of working with Focus Financial Partners is the people. Having a team of experts to help guide you on all aspects of your business is incredible."
>
> —**Melissa Bouchillon**
> Managing Partner and CCO,
> Sound View Wealth Advisors

DID YOU KNOW?

You have financing options

Equity partners and private investors are just two of many options to obtain transition financing. If it makes more sense, you can pursue a loan rather than give up partial equity in your firm. Perhaps you'd benefit from a small business loan, an express line of credit where you can draw money as you need it, or a more conventional time-based loan. No matter what, you're not alone in evaluating banks and finding the right deal. Experienced Schwab Business Development Officers can help.

Learn more about sharing ownership of an RIA firm

Contact a Schwab Business Development Officer at **877-687-4085**, or keep reading to explore more paths to independence.

Affiliate with an existing RIA firm

A balance of autonomy and support

The RIA industry is seeing a trend toward consolidation of practices as firms seek to broaden or deepen their service capabilities for clients. According to Cerulli, the number of investment advisors per RIA practice has grown at a five-year CAGR of 3.5% for the independent RIA model and 3.2% for the hybrid RIA model.[7] And 76% of firms plan to hire from external sources in the next 12 months.[8]

But consolidation doesn't necessarily mean you have to become a full-fledged employee of another firm.

Affiliating with an existing RIA firm may allow you to keep your book of business and also maintain your autonomy. Plus, you can access a ready-made infrastructure for business operations and management.

Ask yourself:

Are you interested in leveraging an established brand?

When an investment advisor affiliates with an existing group, their business model can often stay the same. The affiliation can bring flexibility and can lead to increased growth through tapping into pre-existing marketing campaigns, events, and expanded product offerings. Investment advisors may even have their own office or location. You likely can control your schedule and work-life balance and take advantage of the firm's brand recognition and expertise.

Do you like the idea of control over day-to-day tasks, with support when needed?

When you affiliate, you may operate as a 1099 employee instead of a W-2 employee. In this model, you can stay in control of your day while leveraging solutions already in place at the firm, such as technology, compliance management, and other business operations. In some cases, you can share existing support staff. In a 2018 Schwab study of advisors considering independence, 9 out of 10 advisors said they preferred at least moderate support with branding, operations, and staffing.[9] Plugging in can simplify the transition and give you a running start as an independent investment advisor. Succession planning may be simpler too, as parameters may already be defined by the parent company.

Would you prefer to take on a partial stake in business rewards in exchange for less risk?

In this model, investment advisors operate as RIAs but are not necessarily self-employed. The Form ADV (the Securities and Exchange Commission registration) as well as insurance and liability coverages are the responsibility of the firm instead of the investment advisor. Advisors are also empowered to negotiate the terms of their earnings. A 2018 Schwab study of advisors considering independence found that 68% of advisors would prefer a revenue percentage as their compensation, while 32% would prefer salary and incentive.[10] This model can potentially enable you to secure an equity percentage in the parent company, which could translate into a future payout should the company do well or be sold.

> "Affiliating was a mission-driven decision for me. I wanted to focus on my core business while relying on experts for some of the risk management."
>
> —**Brent Johnson**
> Founder, Vision Wealth

DID YOU KNOW?

It's essential to find the right fit

An important aspect of joining a firm is finding one that's a good cultural fit and that matches your investment philosophy. In fact, 75% of advisors who seek to affiliate with or join an RIA say their timeline for transition would shrink from two years to 12 months or less if they found the right match.[11] When evaluating a firm, make sure you understand whether the owners share your and your clients' values and goals.

If the perfect match has yet to present itself, keep in mind that designing your own unique version of independence is an option. Experienced Schwab consultants can provide expertise and guidance to help you make the transition and manage your firm successfully.

Learn more about affiliating with an existing RIA firm

Contact a Schwab Business Development Officer at **877-687-4085**, or keep reading to explore more paths to independence.

Join an established RIA firm as an employee

Independence without the responsibility of ownership

Firms in the RIA channel are increasingly looking to achieve inorganic growth through acquisitions such as advisor tuck-ins, in which an investment advisor and their business are absorbed into the infrastructure of a parent company.

In fact, in 2019 the number of mergers and acquisitions—132—set a record for the sixth consecutive year.[12] When RIA aggregators, national multi-office firms, and even local RIAs are acquiring or hiring new advisors, they look for people who complement their company culture and supplement their service offering. For example, they may bring on a next-generation investment advisor or someone with specialized expertise.

Joining an established RIA firm allows you to capitalize on the benefits of the RIA model without taking on the risk of owning a business.

Ask yourself:

Would you prefer to plug into a culture and client experience that align with your values instead of designing something from scratch?

Just as W-2 employees do, advisors who join an existing firm agree to reflect and champion the company's values. The advantages of this arrangement can include the opportunity to plug into a ready-made platform and an established brand, a lower-risk transition that is less disruptive to your clients, access to guidance from firm management, and the ability to leverage the expertise of your co-workers. With any firm you join, it is very important to do your due diligence and evaluate whether the firm's culture and investment philosophy are a good match.

Do you like the idea of relying on the ready-made support of an established infrastructure?

In a 2018 Schwab study of advisors considering independence, 29% of respondents cited the ability to leverage an existing infrastructure as the top reason why joining a firm is more appealing than ownership.[13] When advisors join a firm, they may gain access to the firm's existing technology solutions, compliance management, administrative processes, staff, and even the coffee in the breakroom. It's all set up for you, which means you spend less time on firm operations and more time serving your clients.

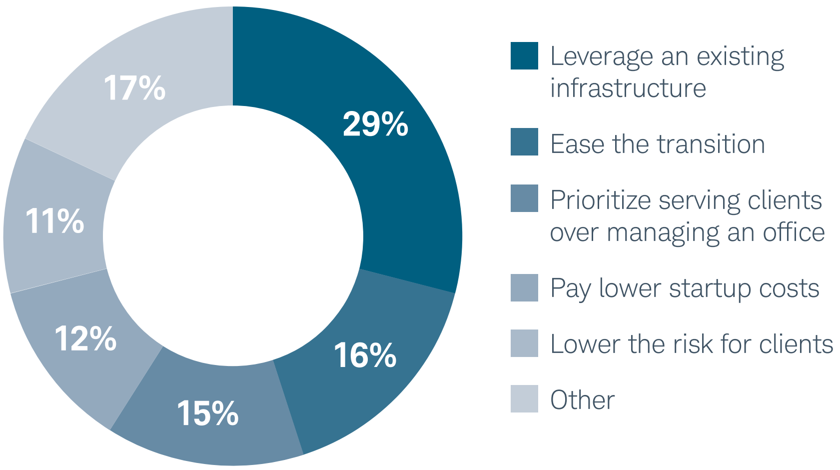
Are you comfortable having your income potential and asset growth tied to other advisors' and the firm's performance?

Investment advisors in this model can operate as employees or potential partners of the firm. Before signing a contract, you may have the opportunity to negotiate the financial terms, which can include an up-front payout, long-term equity, or a combination. In some cases, firms are willing to split expenses and take a percentage of an investment advisor's revenue. Other times, compensation is a salary and potential bonus. If the firm grows, you may share in the revenue. Its success is your success and vice versa.

Learn more about joining an established RIA firm as an employee

Contact a Schwab Business Development Officer at **877-687-4085**.

Reasons why advisors would join rather than own an RIA firm[14]



> "Joining an RIA provided a way for me to leverage their existing technology platform, business infrastructure, relationships, and brand recognition without having to create it all myself."
>
> —**Scott McClatchey**
> Wealth Advisor, WWM Financial

Choose your vision of independence

While advisors have been making the move to independence for decades, a combination of circumstances has created unparalleled opportunity for investment advisors in the RIA channel. The core models are mature. The support ecosystem is robust and filled with innovative services to help investment advisors scale and grow. Most important, investors have made a fundamental shift in the way they want to receive financial advice by embracing the fiduciary standard. More and more investment advisors are meeting them there.

A path for success

Capitalizing on established pathways and support resources, investment advisors are navigating to a place where they can create the client experience they envision and pursue successful professional careers. Investment advisors report that the move to independence is worthwhile in more ways than one. A Schwab survey of recently transitioned investment advisors found that 7 out of 10 investment advisors have increased their gross revenue since going independent. Nearly all of these investment advisors said they were happier after going independent, and 96% said they would do it again.[15]

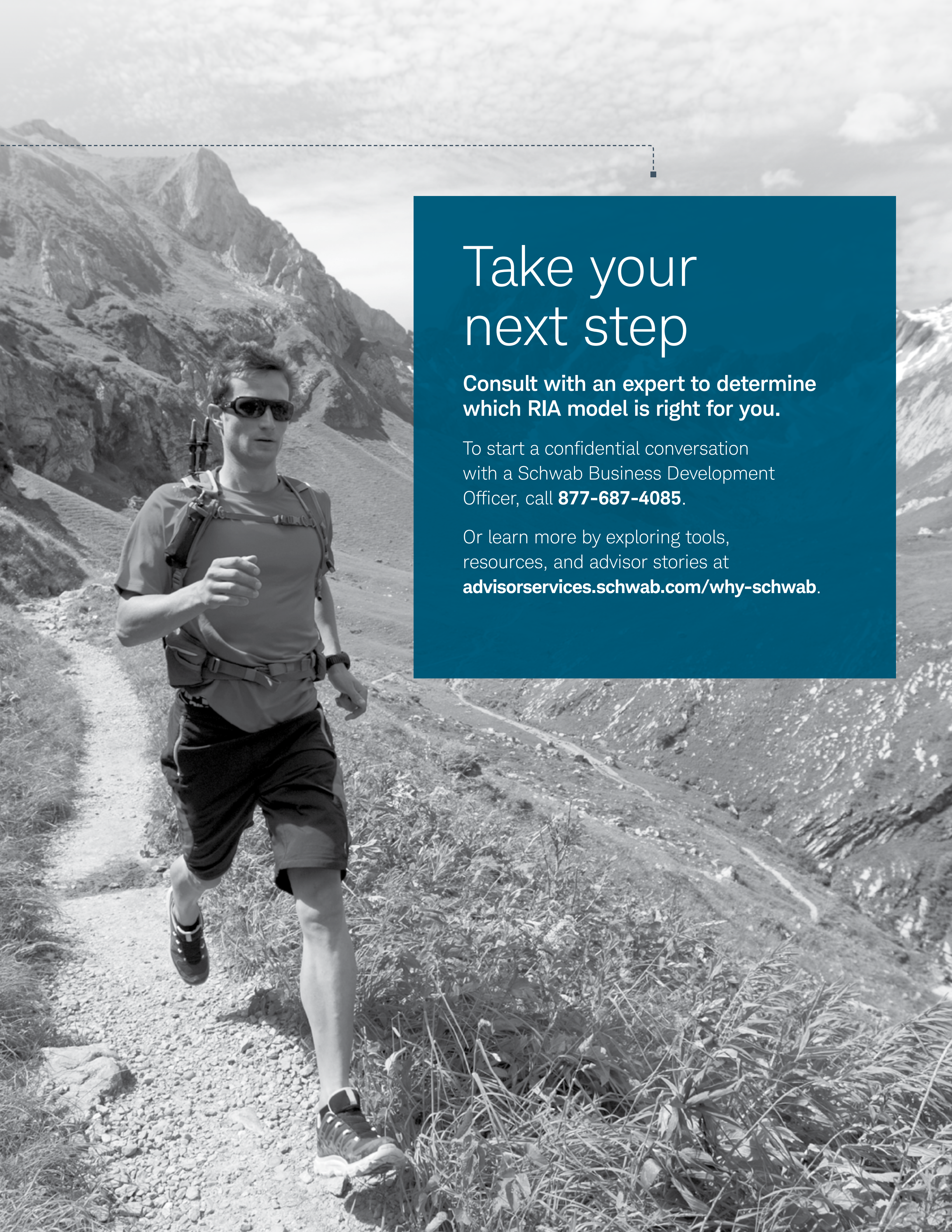
96% of investment advisors who have gone independent said they would do it again.

The future promises even more for RIAs. Cerulli projects that the independent RIA and hybrid RIA channels will grow in asset share from 24.2% in 2018 to 29.7% in 2023.[16]

A model for everyone

The options for independence are virtually unlimited, giving you the flexibility to design and follow your own path. “The RIA model allows for infinite amounts of creativity in how investment advisors deliver services and interact with clients,” says Schwab’s Tim Oden. “This makes the model so unique.”

Going independent can help you realize your vision, whether you want to own a nationally recognized or a local boutique firm, leverage best-in-class support, or join an existing RIA firm. It all hinges on who you are and what you want to achieve for yourself and your clients.



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 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 futures and is committed to pushing the financial advising industry forward on behalf of investment advisors.

1. *The Cerulli Report, U.S. Advisor Metrics 2019: The Digitally-Empowered Advisor,* Exhibit 2.08, Cerulli Associates, December 18, 2019.
2. Independent Advisor Sophomore Study from Schwab Advisor Services, Logica Research (formerly Koski Research), March 2018.
3. 2019 RIA Benchmarking Study from Charles Schwab, fielded January to 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. 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.
4. Independent Advisor Sophomore Study from Schwab Advisor Services, Logica Research (formerly Koski Research), March 2018.
5. Spectrum of Advisor Independence Custom Study, conducted for Schwab Advisor Services by Phoenix Marketing International, June 2018.
6. *The Cerulli Report, U.S. Advisor Metrics 2019: The Digitally-Empowered Advisor,* Exhibit 2.07, Cerulli Associates, December 18, 2019.
7. *The Cerulli Report, U.S. Advisor Metrics 2019: The Digitally-Empowered Advisor,* Exhibit 2.16, Cerulli Associates, December 18, 2019.
8. 2019 RIA Benchmarking Study from Charles Schwab, fielded January to March 2019.
9. Spectrum of Advisor Independence Custom Study, conducted for Schwab Advisor Services by Phoenix Marketing International, June 2018.
10. Ibid.
11. Ibid.
12. *RIA Deal Book™: Fourth Quarter 2019*, Nuveen in conjunction with DeVoe & Company, January 2020.
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16. *The Cerulli Report, U.S. Advisor Metrics 2019: The Digitally-Empowered Advisor,* Exhibit 2.14, Cerulli Associates, December 18, 2019.

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