PRACTICE MANAGEMENT: Cost Of Independence Can Vary Widely

By **Kristen McNamara**

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NEW YORK (Dow Jones)--One of the biggest issues for brokers contemplating independence is financial: How much will it cost to start my own firm and how much money will I bring home?

The answer involves more questions, including: What's the business model and where will the business be?

"It really can be all over the map," Christopher Winn, co-founder of MainStay Consulting Group, which helps financial advisers establish and run investment advisory firms, says of financial projections.

Schwab estimates the cost of opening an advisory firm to be $83,000 for two financial advisers and one employee generating $1 million in fees and commissions. These costs, which include both one-time and ongoing costs, include furniture, health and business insurance, marketing and business development, legal and compliance, office supplies and leases on office space and technology infrastructure.

Overhead expenses range from 27% to 31% for well-managed investment advisory firms, Schwab says.

Independent broker-dealer Brewer Financial Services puts the cost of starting a brokerage firm near $25,000 for a financial adviser generating $1.2 million in fees and commissions and two employees.

The vast difference in these projections reflects the difficulty of attempting casual side-by-side comparisons.

Differences in office decor, layout and location, outsourcing decisions and the scope of marketing projects are among the factors that create big variances in cost estimates.

Financial advisers with similar businesses generally incur similar first-year and ongoing expenses whether they start their own advisory firm or affiliate with an independent broker-dealer, Winn says. But there can be a difference is how these costs are paid.

Fee-only investment advisers who work with a custodian, such as Schwab, keep all their revenue and are responsible for all their expenses. Financial advisers affiliated with independent broker-dealers assume most of the costs of running their business and may also pay the broker-dealer fees related to administration, compliance and transactions. Financial advisers should ask about the various charges that can affect their net revenues.

Financial service firms have checklists for brokers mulling a move, and Brewer Financial is developing a worksheet to help financial advisers compare the costs and offerings of independent broker-dealers.

Independent financial advisers who run their business efficiently typically make more money than brokers employed by brokerage firms within a few years of breaking away, industry consultants say. Independent advisers also have greater flexibility in serving clients and build equity in their firms, which they can turn into cash when they sell their shares.

Still, a desire for more control over one's business, rather than just a desire to make more money, should drive advisers' decision to leave brokerage firm employment. Taking on all the responsibilities of business ownership doesn't appeal to all financial advisers.

Those who are intent on making a move should question custodians, broker-dealers and consultants on their financial projections. Financial advisers who have recently made a move can also be a source of information.

"Trust but verify," says Brian Hamburger, founder of the Hamburger Law Firm and MarketCounsel, a consulting firm for investment advisers. "The move to independence is not right for everyone."

(**Kristen McNamara** writes Practice Management, a column that looks at ways financial advisers can build and improve their business. She can be reached at 212-416-2238 or by email at **kristen.mcnamara**@dowjones.com.)

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