

Thursday, January 21, 2010

Going Independent Webinar Series

Evaluating RIA Business Models

Chris Winn, AdvisorAssist



Upcoming Webinars



Mike Williams	What's New At Schwab Performance Technologies	January 22
Rick Randall	The New Estate Planning Landscape	January 29
Bob Keebler	Roth IRA Conversion Techniques	February 5
Blane Warrene	A Roundup Of Leading Advisor CRM Systems	February 12
	Advisors Going Independent	February 18
Gary Gastineau	ETFs: The Good, Bad and Misunderstood	February 19

Please fill in our exit survey.



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***Kathleen Iola
Iola Financial Group***

- CE credit on replays of Financial Advisor Webinar Series
- Aggregating Economy, Industry, & Technology Headlines Daily
 - 750 advisors rely on A4A’s news roundup daily
 - We assemble your reading list from leading consumer, trade, and tech sites
 - Mary Rowland, Bob Casey, Andy Gluck scan all major the news for advisors



- **Blog Highlights:**

- Answers To Roth IRA Conversion Questions
- Clients See Technology Different From Advisors
- Workflow Rewards Time Management
- Launching Your First Article Marketing Campaign
- Is This New Tool What Life Planning Needs?

- **A4A Rewards**

- 2010 RIA Compliance Calendar
- Going Paperless Preparation Manual
- Three Processes To Embed In Your CRM

- **Recent Webinars With CE Credit**

- Precious Metals: Can The Rally Continue?
- The 401(k) Upheaval & Advisors
- The Roth IRA Conversion Opportunity

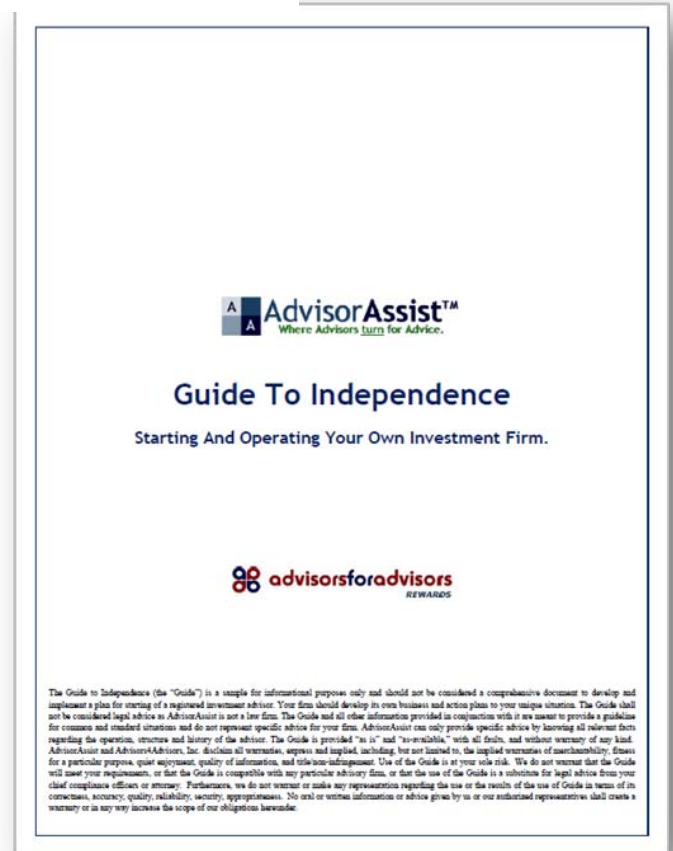
Free trial membership email should arrive by 7 p.m.



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- Co-Founder of AdvisorAssist™
 - Supports start-up and growth of IA firms
 - Turn-key RIA Registration and Business Model Consulting
 - Compliance Program Design & Independent Assessments
 - Outsourcing Compliance and Operations
 - Technology Selection and Implementation
- 17 years of industry experience
 - Co-Founder MainStay Consulting Group, LLC
 - Chief Compliance Officer, Open Investing, Inc. and Advisor Now, Inc. and other RIAs
 - Associate Director of Investment Management Consulting of Navigant Consulting, Inc.
 - Vice President, Product Management, Evergreen Investments (Wachovia Securities)
 - Vice President, Business Operations, Evergreen Investments (Wachovia Securities)
 - Assistant Vice President, Mutual Fund Administration, Evergreen Investments (Wachovia Securities)

Which RIA model is best for you?



There are many different business model options available to you, but they all start with this key decision:

Starting your own RIA
vs.
Joining an Existing Firm

Today's Topics

- Overview of the different options
 - Start your own firm
 - Affiliate with another RIA
 - Keep a Broker-Dealer Affiliation?
- Key considerations
- Process for Starting your own RIA
- Registering your new RIA while affiliated.
- Questions – please send them in. We'll leave room for your specific questions.

Starting vs. Joining an RIA

No matters which turn you take, there are many options to develop a successful advisory career.

Your Own RIA	Joining an RIA
Solo advisory practice	Employee (IAR)
Select Partners that complement your business	Independent Contactor (IAR)
Acquire other Advisory Reps	Minority Partner
Expand a complementary business (CPA, Insurance Practice)	National RIA or Aggregator

Each approach has its benefits as well as the downside. You decide...

Risk vs. Reward



Ask yourself the same questions you ask your clients...

How much risk am I willing to take over what time period?

Do I have adequate capital to meet short term needs?

What are the opportunity costs of a given decision?

The Self-Assessment



Time for honesty and self-reflection...

What do you like most about being a financial advisor?

What do you like least?

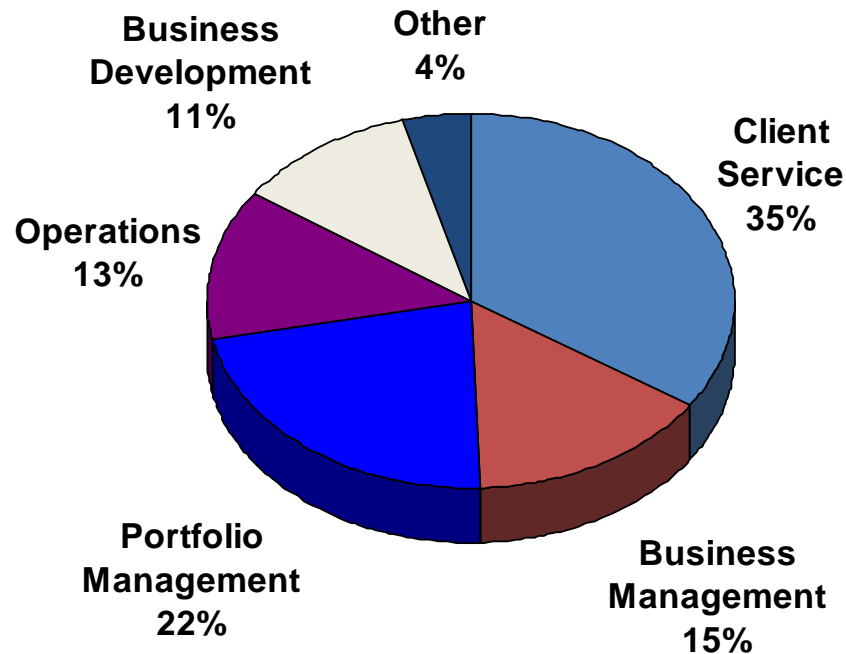
What tasks do you generally leave for the last minute?

The Self-Assessment – cont.

Which way do you tilt? Consider these factors when making your decisions.

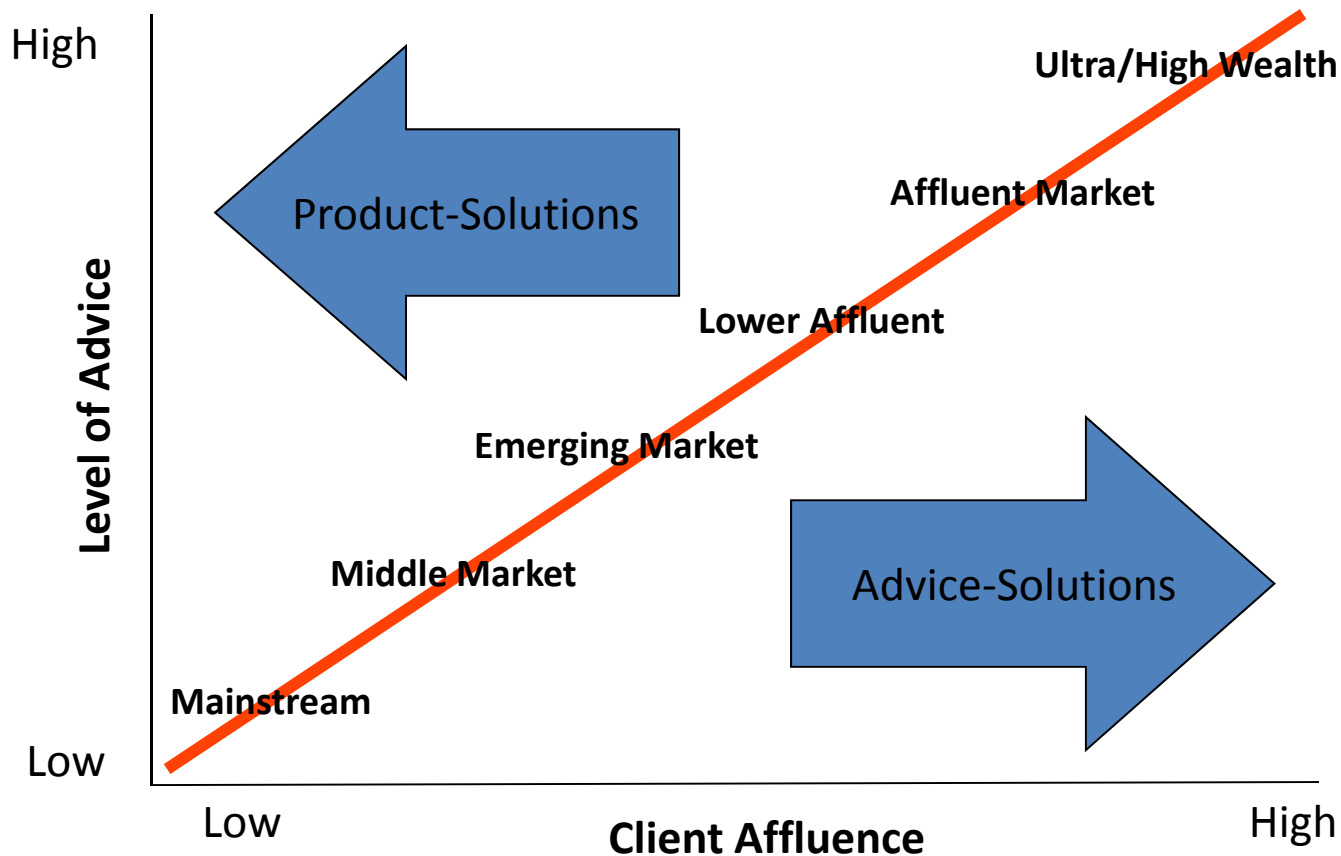


Where will you spend your time...

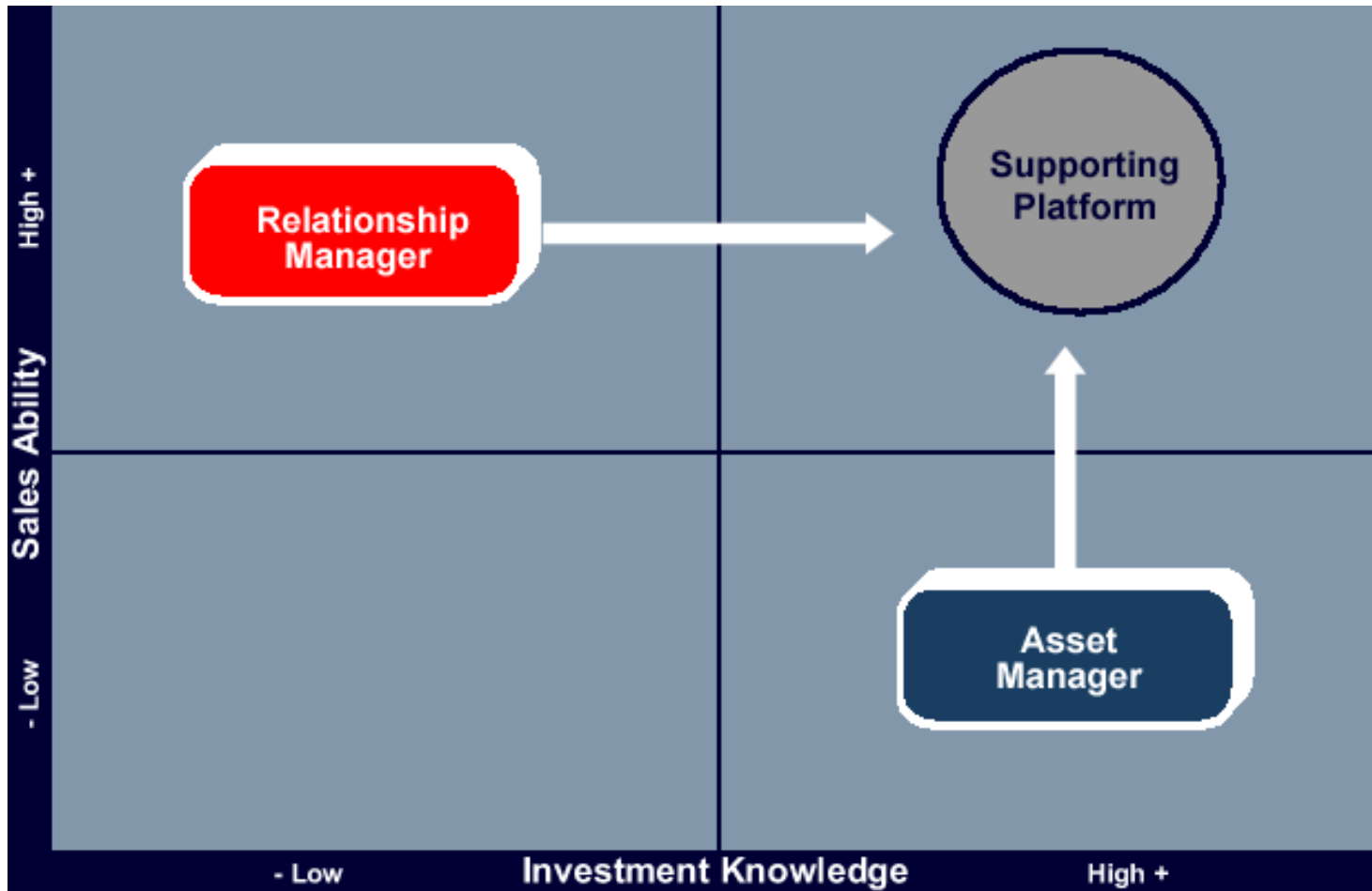


Who are your clients and what are their needs? Can you deliver?

The level or depth of advice will vary across client affluence



Are you more the Relationship Manager or the Portfolio Manager?



The Economics

The obvious answer for most advisors comes down to the math. Where will I earn the most net revenue?

- Don't focus on gross revenue – it is meaningless.
- What are the costs for comparable services?
- What non-core services can you outsource with the extra net revenue? Is it worth it?

The Exit Plan

When considering business models, also consider the exit strategy...

- How many years will I continue to work as an advisor?
- Do I have a desire to pass on a business to my heirs?
- What will happen to my family if I pass on?
- Are my clients only here because of me? Will they go if I go?
- Will I draw income from the business upon retirement?

Broker-Dealer Affiliation

When does it make sense to keep a B-D relationship?

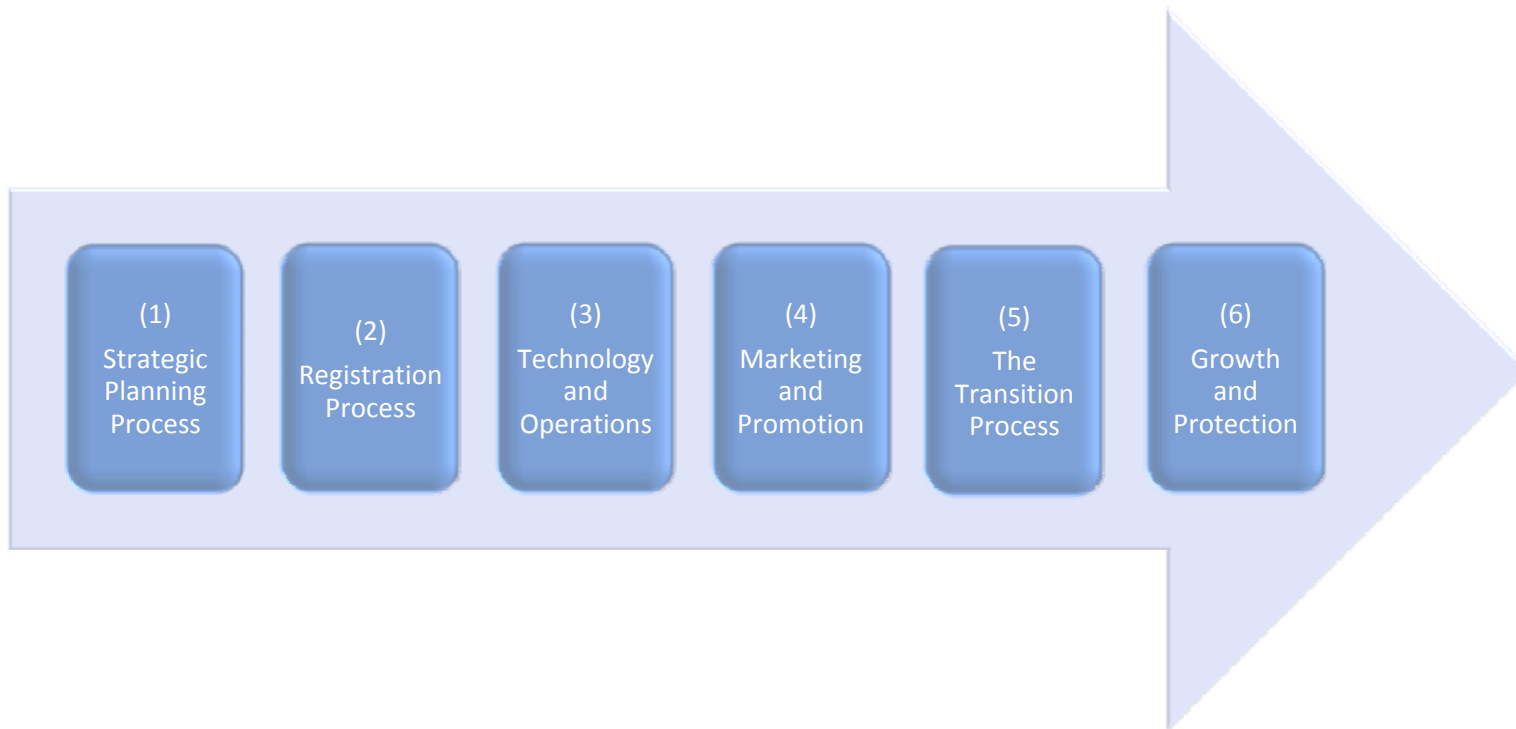
- Business models
- Revenue share and overhead
- Compliance considerations
- Branding and positioning
- What do my clients need and expect?

Starting your Own RIA

The Road to Independence

The road to establishing your own RIA may seem daunting.

Like any of business activity – it is just a process!



Strategic Planning

The process starts with disciplined business planning and realistic forecasting.

- Type of entity
- Service offerings
- Custodian Selection
- Broker-Dealer affiliation?
- Solicitor arrangements?
- Strategic alliances with complementary firms
- Start-up capital
- Office space
- Insurance (E&O)



Strategic Planning

Determine the business model that meets
The needs of your target clients.

- Develop an action plan, budget and timeline.
- Review your alternatives.
- Seek advice from existing firms and industry resources.
- Make informed decisions – think about today and 5 years out.
- Don't try to do everything at once. Pace yourself!
- Time your move carefully.

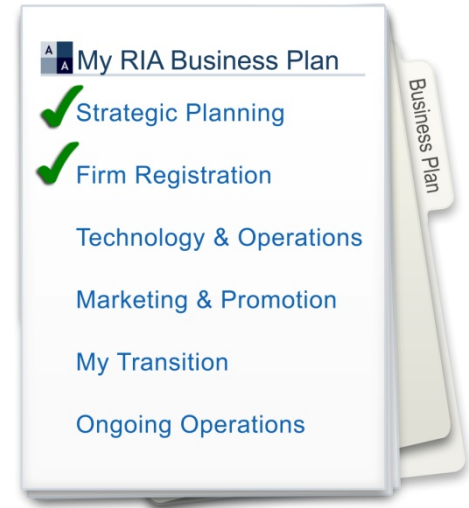


Registration with SEC or State(s)

Licensing of the Firm:

- SEC vs. State Registration
- Registering in multiple states
- Required Forms (ADV 1, ADV Part II, Brochure)
- Timeline – generally 45 days from filing
- Fees range from \$0 to \$400 per firm per state per year.
- What to expect? The regulators **will** come back with questions and additional requirements. **Count on it!!**

Proposed legislation change – Advisors under \$100 million to become under State jurisdiction.



Registering IARs with State(s)

What licenses are required?

- Series 65 or Series 66
- Exemption with certain designations
 - Varies in some states
 - Chartered Financial Analyst (“CFA”)
 - Certified Financial Planner (“CFP”)
 - Chartered Financial Consultant (“ChFC”)
 - Chartered Investment Counselor (“CIC”)
 - Personal Financial Specialist (“PFS”)
 - Some states also exempt Certified Public Accountants (“CPA”) and other experience.

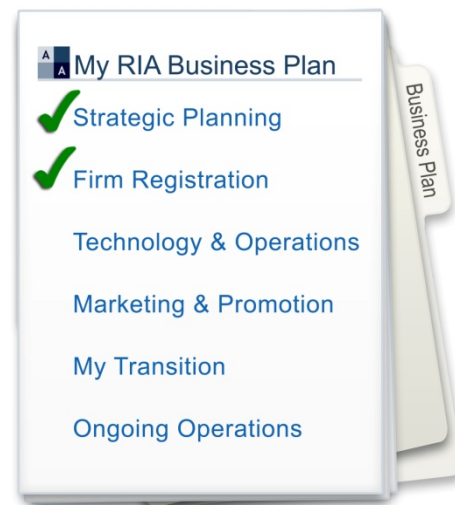


More information at <http://ria-exams.advisorassist.com>

Registering IARs with State(s)

Licensing Investment Advisor Representatives:

- At least one registered person
- Required Information Varies:
 - Form U-4
 - Prior Activity Affidavits
 - Fingerprints
 - Background Checks
- Officers, investment and client facing personnel must register
- Timeline – generally same/following the firm
- Fees – range from \$0 to \$285 per state per IAR per year. (and they are not prorated).



Registering while Affiliated

What activities can be performed while employed?

- FINRA firms require approval of outside business activities, so consider how and when you inform your employer.
- Make sure you provide formal, written notice of termination of your relationship. Do not have them find out from your filings or use of their technology.
- Can I form my legal entity?
- Can I open an exam window and sit for the 65/66?
- Can I file my Form ADV?



Each of these questions require special handling and considerations. In many instances, the answer is that there is no direct communication of these activities.

But cover your bases if you must start before you part ways with your firm.

Your Compliance Program

Rule 206(4)-7 requires that your compliance program be designed to prevent, detect and correct violations of securities laws.

Core requirements include:

- Written Supervisory Procedures
- Code of Ethics
- Privacy Policy
- Business Continuity Plan
- Books and Records Retention Plan
- Email monitoring and retention
- Client Agreements and Investment Policy Statements
- Annual testing and assessment plan
 - Review your compliance program framework
 - Perform a risk assessment
 - Develop a rotational testing plan
 - Document issues and gaps
 - Adjust course. Compliance is an evolving process.



A cookie-cutter program won't hold up to scrutiny by regulators.

Technology and Operations

Key Technology Decisions

- Do you need to own hardware?
- Utilize Software as a Service (SaaS) offerings?
- Do you have the internal IT expertise?
- Where will you work? Always in the office???
- Important systems to evaluate:
 - Email infrastructure (incl. archival)
 - Desktops, Laptops and Mobile devices
 - Investment Management, Research, Trade Order Management and Rebalancing
 - Financial Planning and Proposal Generation
 - Accounting and Reconciliation
 - Contact Management (CRM) System
 - Reporting and Performance



Technology and Operations

Operations

- Who will handle your daily operations?
 - Account opening
 - Reconciliation
 - Fee billing
 - Trade Confirmation
 - Compliance
- Do-It-Yourself, hire staff or outsource?
- What services and technologies are provided by your custodian?
- Will outsourcing also eliminate or reducing technology costs?
- What is your budget? Year 1 vs. Year 3?



Marking and Promotion

What are the pillars of your brand?

- How will your firm stand out?
- Select a partner that can help develop a strategy
- Cohesive branding, from print, web, social media, etc.

Advertising Requirements?

- Truthfulness and accuracy are the foundation
- No formal pre-review by regulators
- Retain all versions following books and records rules
- Performance advertising can be done, but additional rules to follow
- **Social media – YES!! But, no testimonials.**
- Some Compliance Consulting firms offer advertising review as part of their start-up or annual services.

Since we are on a Promotion slide... I know some great firms that can help!



The Transition Process

Follow the rules!

You've made it this far, don't put yourself at risk.

- Follow the Broker Protocol, as applicable
- Who owns the client relationship?
- Is there a non-compete or non-solicit?
- What information can I take?

Seek advice from compliance or legal support.

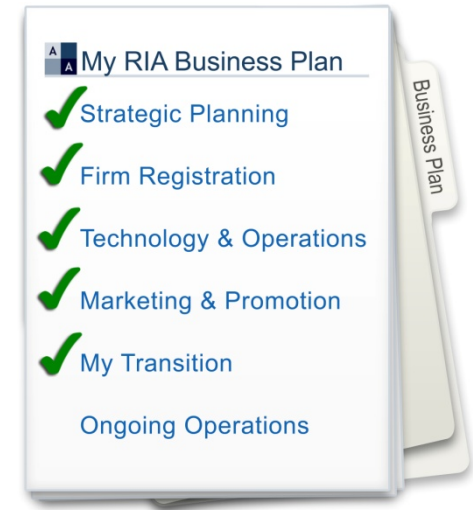


The Transition Process

Timing my transition

Depending on your situation, you may need to be careful about the timing and sequence of your departure.

- Starting while employed. Know your firm's policies.
 - Outside business activities
 - Code of Ethics
 - Technology use policies
- Information Triggers
 - Filing a Form U-4 will trigger a U-5 termination
 - Using company email may get flagged in monitoring
 - Use of company computers often logs sites visited and search engine queries
 - Make sure service providers and others you are working with know what phone numbers, email address and physical addresses are safe for use. Be clear which are off limits.
- Plan on your time, not the company's



Seek advice from compliance or legal support on your specific transition situation.

The Transition Process

What can I tell clients?

Each Advisor will have different circumstances with respect to ownership of the client relationship and specific terms in any Non-compete or non-solicit.

- Carefully review and understand what you have agreed to.
- Do not hold yourself out as an RIA prior to being approved.
- In certain circumstances, you can send letters to prospective clients to inform them of your plans.



Seek advice from compliance consultants on your specific transition situation.

Ongoing Operations

Compliance Requirements

An effectively designed program can be efficient and cost effective.

Some of the notable annual or ongoing requirements include:

- Maintaining registration of the firm and IARs
- Assessing the effectiveness of the compliance program
- Reviewing and updating procedures and internal controls
- Evaluating service provider performance and risks
- Client reviews and validating goals/suitability
- Reviewing Books and Records
- Monitoring for changes in securities laws that affect your firm
- Review of Advertisements, websites, etc.
- Code of Ethics and employees. Certification and training.



Ongoing Operations

Daily Operations

Some ideas to consider to keep you running smooth:

- Leverage technology to reduce risk and keep costs down
- Integrate compliance into the day-to-day
- Develop an Operations Manual
- Consider a secure Intranet site to help you manage the day-to-day information
- Evaluate where your time is best spent. Consider outsourcing certain functions
- Embrace change. Develop a continuous improvement model



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Joining an RIA

Joining an existing firm

How do I find a firm to partner with?

Some ideas to consider in evaluating options:

- RIA Aggregators
- National RIA firms
- Established RIAs in your area
- Established RIAs not in your area

Questions

If you have questions that do not get answered during this session, please feel free to contact me at:

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