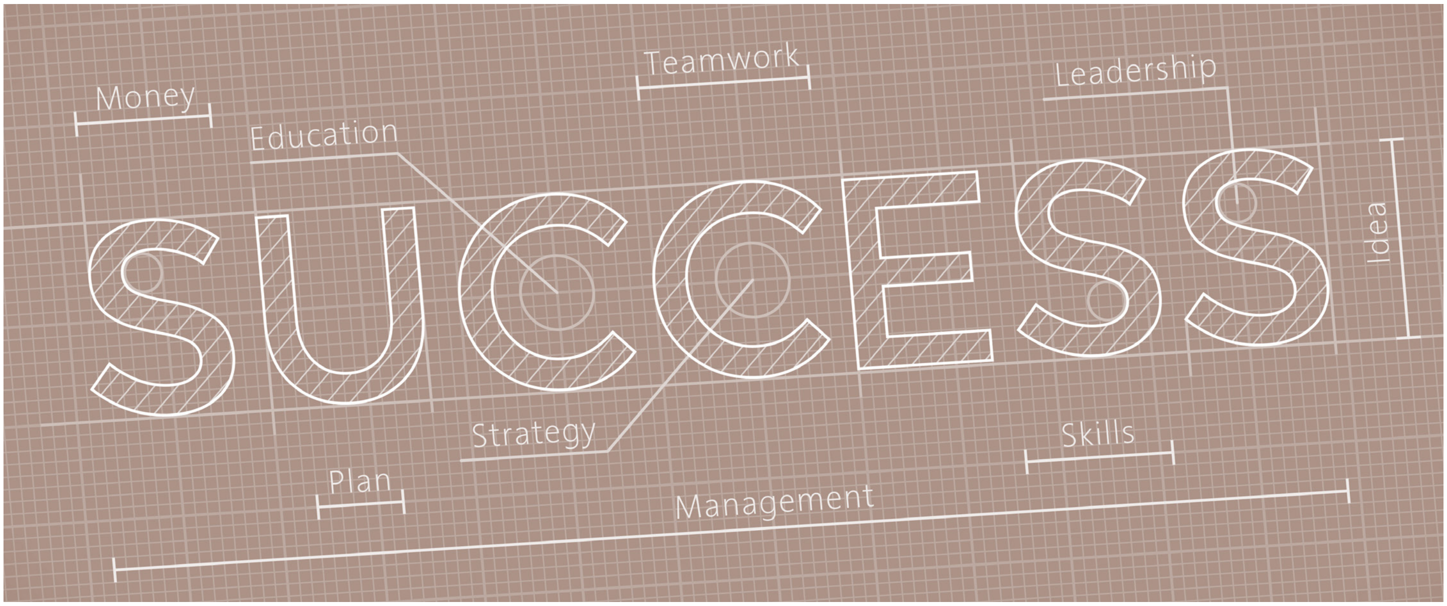
TRANSITION **TO** RIA



Steps To Take Now If You Anticipate Transitioning Your Practice To The RIA Model Anytime Within The Next 10 Years

Strategies you pursue in advance of an eventual transition of your practice to the Registered Investment Advisor ("RIA") model will play a key role in the success of such a transition. This whitepaper explores several actionable steps to consider undertaking now to prepare for such an event.

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Intro

I am often asked, "What should I start doing now in anticipation of an eventual move to the RIA model?"

Whether you are mere months or years away from potentially transitioning your practice to the RIA model, there are a number of practical steps you should undertake now to prepare for such an eventual transition.

This whitepaper is not designed to address the core premise of how the RIA model works, and/or how such a transition to it would look for your individual practice. Such a topic is a conversation unto itself, which I encourage you to explore further if you have not yet done so.

Instead, this whitepaper provides actionable steps to be aware of for any advisor at all considering a potential move to the RIA model, whether they have pursued a deeper understanding of the model yet or not.

As with any transition to the RIA model, every advisor situation is unique and different. Likewise, each of the action items listed herein may or may not apply to your specific scenario. Consider which would apply to you based on your unique circumstances.

As you read through this whitepaper, there are a few key variables to remember:

- If any of the strategies conflict with your affiliation/firm's policies and procedures, I do not recommend pursuing them.
- Consider gradually implementing some of these strategies if you have not previously utilized them (e.g., if you've never given out your cell phone number to any of your clients, you might raise unnecessary attention if you start doing so with all of your clients all within a few mere weeks. A gradual approach is generally better.)

A final note: This whitepaper is intended for a broad advisor audience. Every advisor scenario is unique at times, which can involve specific employee and/or affiliation agreement considerations. Some of the strategies might be inadvisable based on your specific circumstances. If you have any concerns or questions about the applicability of any of these strategies as they relate to your specific situation, I strongly encourage you to first speak with an expert such as me and/or knowledgeable legal counsel. For brevity, I do not repeat this disclaimer under each strategy to follow. It is noted here to reflect awareness for the entire duration of the whitepaper.

Transition Your Assets From Commission Based To Advisory Based

We'll start with this action step as it is the most obvious, plus something you've probably already been implementing within your practice.

There are multiple reasons to consider converting the client base of your practice into advisory fee-based relationships. To name a few:

- **Arguably better for the client** – The standard of care for a client in a commission-based relationship has historically been that of a "suitability" level. It has since been raised (to a degree) to a "best interest" standard. Either way, it still falls short of the full "fiduciary" standard of care embedded in a fee-based advisory relationship.

- **Regulatory push** - With the introduction of Regulation Best Interest ("Reg BI"), ongoing potential revisions by the Department of Labor ("DOL Rule"), as well as state-specific efforts, there is a continued regulatory push towards migrating client relationships into the full fiduciary standard of care of fee-based advisory accounts.

- **Recurring revenue** – Provided the advice and services you are delivering to your clients is commensurate with the fees you are assessing, there are obvious financial benefits to you as a financial advisor to having a reoccurring source of revenue in your practice.

> You do not have to be 100% fee-based either now or at any point in the future to transition into the RIA model

- **Higher enterprise valuation** – Primarily a result of the recurring revenue, practices tilted mostly, or entirely towards fee-based solutions are rewarded in the marketplace with meaningfully higher enterprise valuations. While you may still be many years removed from an eventual liquidity event of your practice, your life's work will nonetheless result in a higher financial exit as you increase the percent of your practice into a reoccurring revenue arrangement.

Whether you are being pushed (regulatory pressure) or pulled (more satisfying practice, financial benefits, etc.), the movement towards fee-based accounts will inevitably only increase over the coming years.

The question is, though, do you have to be 100% fee-based before you can transition into the RIA model?

This is one of the most common misconceptions in the marketplace. You do not have to be 100% fee-based either now or at any point in the future to transition into the RIA model.

Technically, under the RIA itself (whether your own RIA or an existing RIA you might join), you would have only fee-based advisory accounts. However, there is nothing stopping you from having an RIA solution for your advisory accounts, and alongside that RIA utilizing one of the available solutions to accommodate your current and/or future commission business.

It is possible to benefit from the financial and flexibility advantages of an RIA structure for your advisory accounts while still maintaining commissionable business as needed.

While not an exhaustive list, solutions available to accommodate commission business include:

- **Utilizing the services of a 3rd party broker/dealer** – There are specialty "RIA-friendly" broker/dealers whose business model is to partner in this exact capacity. You start your own RIA (or join an existing firm) and put your advisory assets underneath it. You then put your commissionable assets with the broker/dealer for a (typically independent B/D level) payout.

- **Sell your commissionable assets** – There are firms willing to purchase your commissionable assets (generally trail paying) for a multiple of the annual revenue. These firms specifically commit to you to service the asset but to never solicit any remaining part of the client relationship that might otherwise be held by you.

- **Convert** – There is an increasing number of solutions available to facilitate the conversion of existing commissionable assets into a more advisory friendly solution. An example would be converting a currently held commissionable variable annuity into a fee-based annuity solution instead. (Any sort of conversion should be considered only if it is foremost in the client's best interest.)

There are multiple reasons to consider transitioning your client base into advisory relationships. Do not presume, however, that you must convert 100% of those relationships before/ever for the RIA model to be a potential consideration for you.

Takeaway: Where appropriate, consider transitioning remaining commissionable relationships to fee-based advisory relationships.

Make Sure Your Clients Know What Your Personal Cell Phone Number Is

No matter what sort of firm you leave to start your own RIA, you will want to make sure your clients can get ahold of you.

Upon departing a traditional employee type firm (i.e., not independent broker/dealer), you are almost assuredly going to be instantly cut off from your work email address, as well as your work phone number. If those two channels are the only way your clients know of to get ahold of you, that could create challenges for you transitioning your clients to your new firm.

You, therefore, want to make sure they have some way to contact you outside of those channels.

One option, in theory, would be to share your personal email address with them. Your personal email will stay with you no matter what path you take in life, so in theory, if your clients knew your personal email address, it would always be an option to contact you.

However, it is generally inadvisable to do this. If you are currently with a broker/dealer, that firm, as part of their supervisory responsibilities, must monitor, among other things, your email communications with your clients. Hence it is almost assured your work email is currently being screened by some automated and/or manual compliance oversight processes. This is a standard reality in a broker/dealer arrangement.

The challenge, therefore, is, knowing that your email communication with your clients is supposed to be routed through the firm's compliance systems, what justifiable reason would you have to be giving out your personal email address to clients (even if you don't intend to actually email them from it currently)?

By giving your number to your clients now, it will remain a reasonable and easy way for them to contact you at any point in the future.

It is logistically possible to give them your personal email address, but as there isn't really a plausible explanation for why it is necessary for you to be doing that currently, I would advise against it.

But it is quite reasonable to perhaps hand out your personal cell phone number in case a client has an emergency come up with their finances they need to get ahold of you about (perhaps after normal work hours).

As with a personal email address, you are most likely not going to change your personal cell phone number anytime soon, if ever. By giving your number to your clients now, it will remain a reasonable and easy way for them to contact you at any point in the future.

There are numerous approaches to communicate your personal phone number to clients. One way I have seen it done is an advisor would take out one of his business cards with any client he was meeting with and/or any new onboarding client. He would turn it over in front of them and handwrite his cell phone number on it. He would then give it to them, telling them to never hesitate to contact him on it if they ever needed him.

This ultimately serves two purposes. First, it comes across as a positive reflection you value their relationship so much you will give them your personal cell phone number to make sure you are always available if they need you. Second, they now forever have your cell phone number for if/when the day comes that you change firms and they want to get ahold of you.

This strategy does come with some hesitation for some advisors. Perhaps you have always purposely not given out your personal cell number, as to not have clients perhaps calling you at all hours of the day.

Depending on how you present the delivery of your personal number to them (e.g., the business card approach), you can generally mitigate this concern. Simply position it along the lines of "Generally, the best way to reach me will be on my office line because if I am not available to answer it when you call, one of my team members will be able to take your call, and collectively we can make sure your reason for calling is addressed. However, if you're still unable to reach me, or my team for whatever reason, I want you to have my cell number so you know you can always reach me if need be. I encourage you to program it into your phone so you will always know it's there."

You will have made sure they do indeed now have your cell number, however they will most likely never use it (outside of potentially contacting you down the road if/when you have left your firm), and there is arguably nothing suspicious about having taken this client service focused step with your clients.

Takeaway: Find an appropriate way to communicate your personal cell phone number to all your clients you would want to eventually follow you to your new firm.

Connect With Your Clients On Social Media

Connecting with your clients on social media is helpful for two reasons. First, similar to the prior strategy regarding sharing your personal cell phone number, connecting with clients on social media provides another means for clients to find you and contact you.

Second, being connected on social media provides another way to (indirectly) notify your clients about your new practice. As any such posts you make would be broadcast to all your connections, not just your clients, it would be hard for your prior firm to argue that such posts were a direct solicitation to your clients.

A couple of variables to remember with this strategy:

- Consider using more than just one social media platform. While many consumers nowadays have multiple social media accounts (LinkedIn, Twitter, etc.), some are only on one or two. The broader your reach, the better chance of connecting with your clients wherever they are present.

- It is advisable to only use this strategy with social media platforms that your current firm actively allows you to use with clients. Just as with the challenges, noted previously, of handing out your personal email address....if you don't have a justifiable explanation for why you are (currently) connecting with your clients on a particular platform, it could create potential issues for you down the line.

- Make the connections and actively use the applicable platforms long before you depart your firm. You generally would not want a situation where all you ever did was invited your clients to connect on platform X, you then never posted a single time, and only after leaving your firm did you become active on the platform. While that ultimately may or may not create issues for you, simply becoming active currently lessens the chance for such potential accusations down the line.

- If your firm requires, as many do, that you run your social media accounts through some sort of compliance system, be prepared to deactivate that surveillance upon your resignation. While any official "business" related social media accounts your current firm helps you establish might be considered proprietary property of your current firm, you arguably should always be able to take "personal" accounts with you (e.g., LinkedIn.) However, this doesn't necessarily stop your current firm from putting some sort of lockdown on those accounts (via the compliance system) upon your resignation. Ultimately, you would presumably regain control over those personal accounts but could lose valuable access and usage of them in the interim.

Using social media with clients and potential clients is an evergreen strategy you should arguably employ regardless of your future plans. The continuous touchpoints that a social media messaging strategy can achieve is a valuable way to retain existing clients as well as attract new ones.

Takeaway: If you are not already engaging with clients on social media, consider doing so. If you have begun, but only in a limited capacity so far, consider more deeply establishing those connections.

If You Will Need To Repay Unvested Bonus Funds When You Leave, Plan To Have Those Funds Available

Owing your prior firm money is typically a result of having received some initial transition assistance funds ("upfront bonus") when you first joined your firm, but you haven't yet fulfilled the required vesting period for having received that bonus.

For example, if you received an upfront bonus of $1 million that was tied to a ten-year deal term, and you leave eight years into that arrangement, your prior firm will generally want a prorated portion of the $1 million back (2 years left on 10 year, $1 million deal = $200k).

There have been situations over the years where some departing advisors have attempted to make legal arguments that the firm they joined did not deliver on the initial promises they made, and thus the advisor should not owe back (some or all of) the remaining unvested bonus money. I will not attempt to debate the merits of such cases, but my experience has been that with extremely rare exceptions, these rarely work out in the advisor's favor.

For one reason or another, you may ultimately attempt to make sure an argument, I would nonetheless still be prepared to pay the full remaining unvested portion of the bonus money. (Note: Anytime there are unvested funds applicable, it is generally advisable to enlist an attorney well versed in such matters to help guide you through the nuances of it all. I am happy to provide referrals as desired.)

The key, therefore, is to not only have the funds available but for those funds to be accessible. It is fairly common that eight years into a ten-year deal (for example), the initial bonus funds paid eight years prior have either been spent and/or invested in some fashion. I have seen instances where such funds were used to pay off an existing home mortgage. While doing so does not reduce the net worth of the advisor, it does reduce the liquid assets of the advisor.

> Careful to not overthink the idea of having to "owe money back", or that you will be "losing the money" that you owe back.

In such a case, and if no other funds are readily available, it would be advisable to consider establishing a home equity line/loan before leaving your firm so you know you can tap your equity to repay bonus funds as needed.

A few additional variables to be aware of:

- Your prior firm will generally not expect you to hand them a check literally the moment you resign. If for no other reason, you will not necessarily know exactly how much they are expecting back (i.e., you most likely aren't leaving exactly eight years to the day, into a ten-year deal). They will, however, want the funds usually within a matter of days/weeks from when they formally notify you of what they expect back. Hence again, the need to have liquid funds accessible.

- Over the past few years, a number of industry providers have created new and innovative funding sources to help advisors create the liquidity needed for these purposes. These include specialty lenders who have created loan programs backed by the cash flows of an advisor's practice; custodians that are willing to provide a level of upfront assistance (though much more modest than is typical in a broker/dealer environment); middle-office providers who have created innovative capital solutions that can be used to generate needed upfront liquidity; existing RIAs that you may decide to join that are able/willing to provide upfront transition assistance.

- It is also advisable to begin a conversation with your CPA regarding how any such repayment will affect you from a tax perspective. While most "upfront bonuses" are structured in a way where taxes are paid on an on-going basis throughout the deal term length, it is still worthwhile beginning the conversation well in advance to prepare for any applicable contingencies.

Finally, careful to not overthink the idea of having to "owe money back", or that you will be "losing the money" that you owe back. Remember, the reason your firm was able to pay you that large upfront bonus in the first place was because they were going to pay you a lower payout (than you could perhaps get in, for example, the RIA model) for the balance of the deal term, and beyond.

Consider our prior example of the advisor that would "owe back" $200k. $100k for each of the remaining two years on the deal. That advisor might conclude they should simply wait out those final two years so they don't "lose" $100k per year.

However, consider if the economics demonstrated that the same advisor after moving to the RIA model would generate (to use a simple example), an extra $150k per year, due in part to the higher payouts of the RIA model?

Yes, in that first year, the advisor would be net negative: -$200k repaid to prior firm + $150k in additional income = -$50k "lost" net worth in that first year. However, starting in year two, that additional $150k per year in income would overcome that final "lost" $50k and then result in a net positive of an additional $100k in aggregate income. This hypothetical scenario has the advisor trading $200k for $300k over the two year period. Plus, now has the full freedom and flexibility of the RIA model. Would you take that deal?

I often equate this scenario to refinancing a mortgage. You generally must fund the closing costs of the refinance upfront. As a result, the "net" impact to the borrower of a refinance is generally negative in the first year(s), as the increased interest savings has not yet made up for that initial "expense". However, once the interest savings have overcome that hurdle (or with moving to the RIA model, your new higher "earnings" have overcome your repaid bonus funds), you are now net positive on a going forward basis.

As with a mortgage refinance, this is simply a matter of mentally accepting the aggregate math involved, and not being blinded by what appears to be "losing" money on the front end.

Takeaway: If you know you will have to repay funds to your prior firm, make sure you have liquid funds available, and/or begin strategizing as to how you can create readily accessible funds as needed.

Do Not Keep All Of Your Liquid Net Worth In Accounts Held At Your Current Firm

While you perhaps are not allowed to hold investable assets away from your firm, there is generally nothing stopping you from holding cash away from the firm.

If/when you leave your current firm, you may or may not have to repay funds back to them, as discussed in the prior segment. While rare, it is not entirely unheard of for a brokerage firm to immediately freeze the accounts of the departing advisor held at the firm. This is generally done if the firm is under the impression you will indeed need to repay them money, and hence they are attempting to "protect their asset" by at least freezing your accounts until the financial situation can be rectified.

Now you might be thinking they have no legal right to do this. I am not an attorney, so will not attempt to give a specific legal opinion regarding this. However, whether it is legal or not, I have indeed seen it occur. The firm's attitude being, "If we're going to perhaps get into a legal tussle with the departing advisor either way, we'd rather at least have their (our?) funds frozen."

Now, this predicament can create all sorts of challenges for you. Perhaps you use an account(s) at your firm essentially as a checking account from which you pay your mortgage payment, monthly bills, etc. Imagine suddenly not having access to those funds for some period of time? And even if you don't use any such account in a checking account type scenario, it is still your funds that are now frozen against your will.

This predicament does not always come with an easy fix, though. While you could use a more traditional checking account at a retail bank instead for your checking needs, as a registered representative of a broker/dealer, it is almost certain that your current firm requires that you keep at least your investment/security assets under their roof (for supervisory purposes).

To the degree you are able/willing to liquidate any parts of a taxable investment account to start up your new RIA, repay funds to your prior firm, etc., consider moving that cash asset out of the account before turning in your resignation (i.e., while you perhaps are not allowed to hold investable assets away from your firm, there is generally nothing stopping you from holding cash away from the firm.)

Now to be certain, this entire topic might ultimately be a moot point for a few possible reasons:

- You don't owe your firm any money, nor know of any reason they would insist you do, thus perhaps there is no reason for them to consider freezing your account(s).
- You have liquid assets available to repay any funds owed and you make it expressly known to them at the time of your departure you are ready to write that check (though this doesn't guarantee they won't still perhaps freeze your account).

- You have sufficient liquidity available to you in accounts held elsewhere from your firm so even if they did temporarily freeze your firm-held accounts, it would not cause you undue financial pressure while the matter is being resolved.

From my observations, situations where accounts are involuntary frozen are more the exception than the norm. It is nonetheless something to be aware of, and to the degree you feel it could affect you, it is worthwhile to plan now as to how you might hedge against the risk of it occurring.

Takeaway: Consider the likelihood that your account(s) might be frozen if you left your current firm. To the degree there is concern, begin strategizing ways to potentially protect your assets accordingly.

Consider The Potential Portability Challenges Of Using Proprietary Investment Products

If/when you start your own RIA, you will naturally want to bring your existing clientele over to your new firm with you. While there are several variables involved with such a process, one is the ability to logistically move the assets in your client accounts.

This is a relevant topic whether you are using proprietary or non-proprietary products. Let's consider the latter first.

If you are using mutual funds, Separately Managed Account managers (via your firm's internal SMA platform), ETFs, etc., by default, that indicates that your firm has either 1) entered into agreements with those investment product providers to allow their products on the platform (mutual funds, SMA, etc.), or 2) has approved the product to be accessible to be traded (ETFs).

Just because an investment product exists doesn't by default mean it is necessarily accessible to you to use at your firm. This is no different in the custodial marketplace. Each custodian has considered which mutual funds to make accessible, which SMA managers to make accessible, which ETFs to allow to be traded, etc.

(Note: The above reference to SMA managers being accessible is regarding internal SMA platforms of a specific firm or custodian. If your firm/custodian doesn't accommodate a particular manager, there are potential ways to still access them via third party SMA platforms.)

Custodians almost always have a broader array of "accessible" investment products than broker/dealers. Whatever you are currently using (if at a broker/dealer) will most likely also be available with a custodian.

Exceptions are possible, however, such as where perhaps your current broker/dealer has brought on a new mutual fund, and for whatever reason, that fund has not yet made its way on to a particular custodial platform. A routine component to considering a custodian for your RIA is to have the custodian review your current investment product "holdings", and to confirm that the same holdings are available on their platform as well.

This due diligence extends beyond what, for example, mutual fund family you are using. You also must consider the particular funds within that family you use. And what the particular share class of each of those funds are. Again, any custodian will review this with you as part of your due diligence of them.

Make no mistake, the creators (and promoters) of such proprietary products are well aware of the additional firewall this creates with keeping assets on their platform.

The main purpose of this exercise is to confirm that your current client assets can be transferred over "in-kind" to the new custodial platform.

This then brings up back to the concern over the use of proprietary products. By their very "proprietary" nature, it is almost certain those investment products will not be available at a different firm/custodian.

Make no mistake, the creators (and promoters) of such proprietary products are well aware of the additional firewall this creates with keeping assets on their platform. They would never admit that and instead expound upon the favor they are doing you, and your clients, by only allowing their own advisors to access such an (allegedly) wonderful investment solution. When in fact, they are quite motivated by the sticky nature of proprietary assets.

As you have undoubtedly concluded by now, when going through the holdings vetting process with a new custodian, proprietary products will probably not be eligible for transfer to the new platform.

Thus, a few factors to remember:

- To the degree you can, consider never using such products in the first place.
- If you're currently invested in such products, and if it is (foremost) beneficial to the client to do so, consider trying to move out of those positions into non-proprietary solutions instead.

Takeaway: Consider if any of the investments you currently hold are either proprietary solutions and/or potentially less broadly used/known, which might result in transferability issues. Consider options for how to mitigate.

Consider Your Options Before You Potentially Enter Into Any Sort of "Sunset" Agreement With Your Current Firm

Most large traditional broker/dealer firms offer existing advisors some sort of "sunset" arrangement in which they can exit the business, generally spread out over several years, and be compensated for the value of their book on the way out. The incentive for the broker/dealer is to retain the client assets at the firm.

The irony in all this is that many of these same firms take the stance that if you left their firm pre-retirement, that the "firm" owns the book of clients, and thus, you cannot take the clients with you, nor be compensated for them. However, if instead, you exit via their sunset retirement program, they suddenly magically decide it is reasonable to pay you some sort of value for your book. Remember their motivation for this, which is not simply generosity towards you.

It is not actually even the firm paying you under these plans. The way the math generally works out, what is technically occurring is the "receiving" advisor is essentially an indentured servant during the life of the sunset program. They take on increasing, up to all, responsibility for managing the book of clients being transitioned while being paid a below-market payout on those assets during the transition period. That payout delta is paid to the sunsetting advisor.

This issue of avoiding sunset programs is equally important for both the eventual retiring advisor, as well as the advisor taking over the book of business

The sunsetting advisor should absolutely be able to realize value from their book of clients as they transition out of the business. I am not implying the advisor does not deserve this compensation. Simply pointing out, it is not your firm being charitable and paying you, they are simply taking it from the receiving advisor's compensation.

But this issue of avoiding sunset programs is equally important for both the eventual retiring advisor, as well as the advisor taking over the book of business. There are good arguments to be made that for either of these advisor scenarios, they would be much better off NOT entering into such arrangements.

For the retiring advisor, exiting the business under an RIA structure will almost always result in a higher valuation for the book of business (often, meaningfully higher) for which you will be compensated. Likewise, the available tax implications of exiting under an RIA umbrella, versus that of a W2 sunset model, can be extraordinarily more favorable. Depending on the size of your practice, the after-tax delta could be the difference of hundreds of thousands, if not millions of dollars in additional value to you for your practice.

But the receiving advisor will generally always be better off "receiving" those client assets under an RIA umbrella as well. An inevitable component to sunset programs is that all parties involved sign a formal agreement regarding the terms of the succession. Language in those agreements (by design, of the firm) significantly decreases the future optionality that a receiving advisor then will have with their practice.

If you are a possible receiving advisor, and you one day might want to transition to the RIA model or any other model/firm other than your own, these agreements will significantly decrease your optionality to do so, which is entirely by the design of your current firm.

The irony is your current firm is not even funding any of this arrangement out of their own pocket, as described prior. Yet uses the opportunity to further tie the related parties to the firm in ways generally not in the best personal interest of either advisor.

Quite a few years ago, such sunset programs were perhaps the best available option for advisors at the time. However, there has been a proliferation of new M&A funding sources and mechanisms enabling you to now recreate this same sort of monetary succession on your own, entirely outside of your current firm, and structured, so it is significantly more favorable to both advisor parties involved.

The retiring advisor has an enormous economic incentive to consider moving to the RIA model before succeeding from the business. Likewise, sunsetting in place at one's current firm can result in a significant disservice to the receiving advisor and that advisor's future options they will then have for their own practice.

Takeaway: If you have not previously entered into any sort of sunset retirement program, become fully informed regarding other available options before doing so. If you've already entered into such an agreement, it is still worthwhile to at least determine if there are any alternatives still available to you. This will likewise be a harder mountain to climb, though.

Locate/Retain Any Prior Agreements You Might Have Signed With Your Current Firm

A transition from your current firm to any other model or firm necessitates consideration of what your current affiliation agreement entails. For some advisors, notably those already in an "independent" model that fully recognizes book ownership, this is less of a concern. For advisors in a more "captive" type environment, careful review of existing agreements is a fundamental part of "breaking away".

To be certain, thousands of advisors have previously successfully departed captive type environments. Following a prescribed, yet continuously evolving set of best practices while doing so is key to a successful departure.

What will determine what best practices to follow, will largely be guided by what your current employment/affiliation circumstances are. There is no better way to decipher the arrangement and craft a strategic path forward than to have those agreements readily available for review, often by specialty legal counsel.

As a baseline, start by keeping good records of any agreements you sign going forward. Or better yet, before signing any new agreements, make sure you are having them reviewed as appropriate to determine what ramifications they may place on you going forward. By no means rely solely on your current firm to help explain the terms to you, as their interests rarely are aligned with yours.

Next, to the degree you can, locate any prior agreements you may have signed and keep them on hand for future reference when needed. I have no illusions about the challenge this will be for some of you. In some cases, you have been at your current firm for years, if not perhaps decades and cannot recall exactly what you might have once signed, let alone be able to produce a copy.

If this prior scenario applies to you, you are not alone. While such a scenario is not as ideal as having the actual agreements available, there are specialty attorneys who are most likely familiar with what you may or may not have signed based on the firm you are with and your tenure with them. So even without agreements in hand, it is still possible to formulate a separation strategy. Having the agreements outright, though, is certainly preferred.

Last, if you cannot recall what you might have signed or cannot locate copies, it is advisable to not ask your current firm for a copy. Doing so will generally raise a red flag with them as to why, perhaps after years or decades, you are now randomly asking for such a copy. It would be more advisable to obtain feedback from the specialty attorneys first before perhaps taking the step of trying to obtain agreements directly from your firm.

Takeaway: If possible, identify, locate and retain any agreements you may have signed with your current firm. A careful review of these agreements and/or the general circumstances surrounding them will be key to a successful transition.

Start To Build Personal Liquidity In Preparation For A Transition

You should think of this as an "investment", and not simply an expense.

Transitioning to the RIA model requires an investment on the front end both to fund start-up expenses and to cover a temporary lull in revenue as you work to move accounts to your new custodian. You should think of this as an "investment", and not simply an expense.

I equate this upfront investment to, again, refinancing a mortgage to a lower interest rate. As anyone that has refinanced knows, you generally must front the closing costs associated with the mortgage. The strategy being that the interest savings you will subsequently experience going forward will far outweigh the initial closing costs. It is simply a matter of time before the aggregate interest saved "breaks even" with the upfront closing costs.

Transitioning to the RIA model results in a similar economic return. Yes, it will involve an initial upfront investment. It will simply be a matter of time, though before your higher annual take-home compensation going forward not only recoups your initial investment but then provides a higher earnings rate going forward.

No matter how favorable these economics are, though, you still need to have liquid assets to "front" this initial investment. To prepare for such a move, identify capital you either currently have available to you or that you could have access to. An example of the latter could be tapping your existing home equity via a home equity loan or line of credit. Arranging for such lending facilities prior to leaving your current firm (employment) will make the underwriting process much more favorable to you.

Depending on the size and circumstances of your practice, as well as what path into the RIA model you pursue, you might also have access to additional capital resources provided as part of the transition itself. While each situation is unique, these resources might include transition support from a custodian themselves, startup capital directly from an RIA platform provider, as well as potential paths into the model that simply require less upfront investment to begin with.

In the past few years, there has also been a significant increase in access to debt capital from specialty lenders that specifically loan to RIAs. Usually, though, these loans are only available after your client assets have been moved to your new custodian, as the positive cash flows from those assets are what collateralize the loan. Where this is at times utilized is when an advisor/team wants to replenish their drawn down liquid assets following a transition or to simply refinance whatever lending facility they used to make the initial upfront investment, to begin with.

Takeaway: Transitioning into the RIA model will require an initial outlay of capital. Understand what level of funding will be required for your specific circumstances, and then determine a strategy for having access to applicable capital as needed.

Understand The Importance Of Talking To An Independent And Expert Voice When Exploring The RIA Model

I can speak to this one firsthand as I have been on both sides of this coin.

I was at one time a business development officer for an RIA custodian. As with many of my business development peers at other custodians, existing RIA platforms, etc., I was knowledgeable in how the RIA model works, the economics, what additional flexibility is gained, how the transition process works, etc.

However, I (as were my peers) was tasked with ultimately selling the specific solution I was employed to represent. Often the solution I was selling was perhaps the best solution for a given advisor/team. Other times, it was perhaps technically a "doable" solution for the advisor, but not necessarily the best for them. And other times still, my solution was perhaps not good at all for them, but I was incentivized to simply try and keep that advisor in my "pipeline", hoping their circumstances would one day change, instead of perhaps guiding them elsewhere.

Further, as I was tasked with selling my employer's solution, and not that of any other provider, I had no incentive nor capacity to become an expert on the other solutions available in the marketplace. Yes, it was always worthwhile staying abreast of the "competition", but that level of awareness was at a more cursory level than the expertise needed to truly be able to explain a particular competing option or firm to an advisor. Which as noted, I wasn't incentivized to do the latter regardless.

This siloed approach to what I could help advisors with was a primary reason I proactively left working at a custodian to launch my own firm, Transition to RIA. I now provide advice that is independent of any one solution or firm.

I am free to educate advisors on all of the available pathways into the RIA model. For some advisors, that is starting their own RIA and building out a network of service providers around them. For others, that is starting their own RIA and utilizing the resources of one of the middle/back office support firms available in the marketplace. Further still, some advisors are best off joining an existing B2B RIA platform.

Once the initial pathway is determined, there are then multiple options available within each endpoint for an advisor to be choosing from. Each option has various pros/cons, different business models, different pricing arrangements, different value propositions, etc.

When you consider the available pathways into the model, and the multitude of solution providers within each, there are literally hundreds of different combinations of options available for advisors to be considering. This is a wonderful advantage for advisors, as it enables you to build a firm that fits the exact circumstances and goals you have for your practice.

The challenge is being aware of what these options are, to begin with. If you begin your due diligence on the RIA model by initially reaching out to one of the eventual end solution providers, you run the potential risk that you'll never become aware of other, perhaps better-aligned solutions.

With my firm, I provide independent guidance and expertise regarding the available RIA models and solution providers in the marketplace.

Equally important, I do not try to be everything to everyone. I do not help advisors who want to explore wirehouse models. I do not help advisors who want to explore bank channel models. I do not help advisors who want to explore insurance channel models. I only work with advisors interested in the RIA model.

When you have a specific health issue to address, do you seek a general practitioner doctor, or do you seek a specialist who is trained and focused on your specific issue? For the same reasons, seek out a specialist, and not a generalist, to learn more about the RIA model.

Transition To RIA provides this level of specialty expertise.

Takeaway: Determine how important you feel independent and expert advice is regarding exploring the RIA model and what it might mean for the success of your individual practice.

Now do something about it

You have worked hard to become a successful financial advisor by helping your clients achieve their maximum potential. Have you stopped to reflect on if you are maximizing your own potential as well?

For all the sacrifices, both professionally and personally, you have had to make to achieve the success you have, you deserve to fully benefit from the rewards your hard work has earned you. Depending on your current affiliation circumstances, you are potentially falling well short of the advantages your experience has positioned yourself for, and which many of your peers have already taken steps to benefit from themselves.

I hope this whitepaper provides a useful starting point as you explore how the advantages of the RIA model can be of benefit to you.

TRANSITION TO RIA

TRANSITION TO RIA empowers financial advisors by providing them with the knowledge necessary to fully understand how the RIA model works, how it would look for their own unique circumstances, and how to make a transition to it.

Similar to the role you play with your clients helping them to navigate the countless products, services, and solutions available with managing their financial lives, I help advisors navigate the numerous options and decisions that go into transitioning to the RIA model.

Why And How To Go RIA?

Should you start your own RIA? Should you utilize the services of a middle office provider? Should you join an already established RIA? How do these options work, how do they compare, and what are the steps involved in them?

What Are The Vendors Involved?

No matter what model you decide on, there are a number of vendors that you'll need to be aware of and familiar with. Custodians, technology providers, compliance consultants just to name a few.

Who Should You Contact?

I utilize my deep industry contact list to provide you with introductions to the specific key person contacts for each of the vendors in the process. You will be confident you are connecting with the right people that can provide you the expertise you need.

FOR MORE INFORMATION

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