charles SCHWAB

Advisor Services

Forward momentum: Why elite teams claim their future as RIAs

Own your tomorrow®

The breakaway movement

Over the years, financial advisors inside many wirehouses or broker-dealers have banded together to broaden and deepen their offerings. This approach enables teams to attract and serve more high-net-worth investors, resulting in substantial growth for their books of business—and the potential for more. Yet many of these elite advisor teams still feel limited: by thick red tape, by hearing no more than yes from upper management, and by a lack of access to advanced products and technology to highly customize experiences and best serve sophisticated clients.

More and more, entrepreneurial advisor teams are breaking away to seize greater opportunities available in the Registered Investment Advisor (RIA) space. The RIA industry is mature, and its model is agile. It sets trends for the financial advising industry at large. It favors advisors and their clients. By going independent, RIA teams gain the control to decide what's best for their clients and businesses. They're free to create their own definition of success and to build a professional legacy.

As the industry's leading custodian, Schwab has a longtime commitment to—and a vision for—the future of the RIA channel, as well as a stable foundation and comprehensive resources upon which advisor teams can rely to help them move forward with confidence as they build lasting businesses.

In the following pages, we'll provide insights from some of the industry's foremost thought leaders to help you understand more about the movement. Here are the topics we'll cover:

- Why teams are breaking away
- The advantages teams gain as RIAs
- Exploring the support ecosystem
- A new era for the industry?

Why teams are breaking away

Each successful transition sparks more momentum for the breakaway movement, paving the ground for other advisors to follow. Here's a look at what is drawing advisor teams into the RIA space.

Channel growth and maturity

The RIA model is attracting more assets—and clients—each year. Unlike the wirehouse and independent broker-dealer channels, independent RIA industry assets have grown 11.3% annually since 2005.[1] And a record number of RIAs now hold $1 billion or more in assets under management (AUM).[2]

"This is a long-term movement of assets to a more advisor-friendly, consumer-friendly model," says Tim Oden, national managing director of business development at Schwab Advisor Services™, which serves as the custodian for nearly three-quarters of RIA firms with $1 billion or more in AUM.[3] "Each successful transition grows exposure and demonstrates the channel's sophistication."

Once seen as uncharted territory, the RIA model has matured to offer an ever-growing support ecosystem. RIA teams can choose from a robust and world-class menu of innovative partners and providers, the latest in technology, broad products and services, and experienced consultants to help build the firm they envision.

72%

of U.S.-based, retail-focused RIA firms with $1 billion or more in AUM custody with Schwab.[3]

Evolving expectations

Financial advisors' businesses are being shaped by shifting expectations. Regulators are pushing all advisors toward what RIAs already promise: a fiduciary standard. The value of doing what's best for clients is especially resonant to sophisticated higher-net-worth investors—including those who run businesses themselves, who, Cerulli found, account for 25% or more of total assets for a third of RIAs.[4]

We believe clients with recently acquired wealth, as well as those with long-standing financial wherewithal, value the entrepreneurial spirit. They may view RIAs as more in tune with their own mindsets.

"Compared with other areas of financial services, you're looking at a business model that brings fewer conflicts of interest and greater alignment with clients," says Brian Hamburger, one of the industry's foremost legal experts and founder of MarketCounsel. "That will continue to reign superior."

Existing limitations and risks

The limitations of captive models—product constraints, reductions in and changes to payout grids, and fee structures that encourage use of proprietary products—can potentially stunt advisor teams' ability to compete and to serve clients. Companies set policies based on the risk potential created by less experienced staff, which can limit the options of sophisticated teams. And, in some models, broker-dealer services such as technology are built in to advisors' fees—regardless of whether they use them.

> "This is a long-term movement of assets to a more advisor-friendly, consumer-friendly model."
>
> **Tim Oden**
> National managing director of business development at Schwab Advisor Services

Furthermore, some financial institutions have experienced highly publicized missteps, which can diminish client confidence. Many clients trust their advisors absolutely, but may not necessarily value the firm they represent.

According to Chris Dupuy, president of the Independence team at equity partner firm Focus Financial Partners, there is some good news. "Long ago, clients started associating more with the personal brand of the advisors than the name of the company on their business card," he says.

Teams that become independent RIAs can further separate themselves from any stigma, strengthen relationships, and grow clients' existing goodwill.

Advisor perspective

Herman Rij, Kori Lannon, and Brian Cort, founding partners, Quadrant Private Wealth

Q ***What led your team to independence?***

A **Herman:** I've been in this business for almost 47 years. We continuously got recruiting calls, and my answer was always, "Why bother?" I felt that our wirehouse was the best firm for our clients. But after it was acquired, doing the things for our clients that we wanted to do became much more cumbersome. The firm, as I knew it, was no longer there. We left because we did not feel comfortable maintaining a relationship with a firm that was putting its bottom line ahead of our clients. It was really an outgrowth of a client-first mentality to running our business.

Q ***How did your clients react to the news?***

A **Kori:** Our clients were very, very supportive of our move; many said, "What took you so long?" We were tremendously successful in the number we brought with us. Leaving also opened up a whole new universe of people who were now willing to talk to us. Some of that stems from our entrepreneurial investors. They had an appreciation for the steps we were taking.

Q ***What value have you seen in working with a strategic partner?***

A **Brian:** The real challenge is that suddenly you're running a business. Focus Financial Partners gave us the financial footing to break away, then got us on the bicycle, attached some training wheels to it, and helped us drive down the street. They've got a deep bench of people, not only directly, but among the partners within the Focus family. That's what we consider ourselves: part of an extended family of folks who are like-minded in their approach to doing the right thing for clients, just doing it in different ways.

Attractive economics

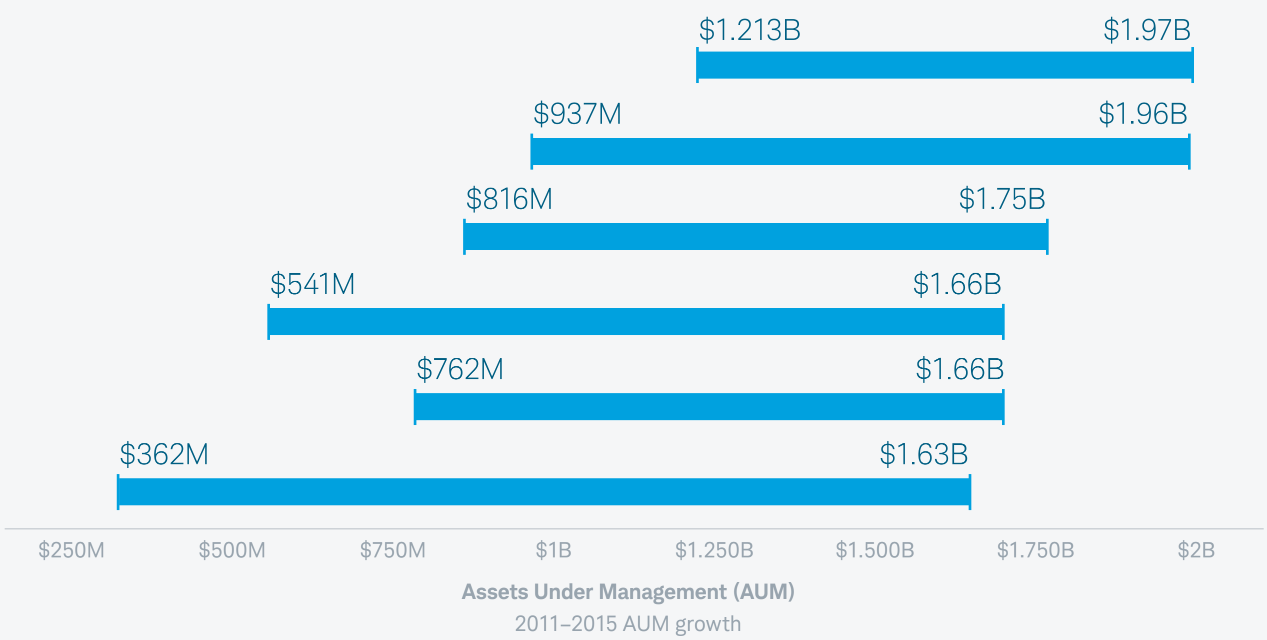
As teams grow larger in captive environments, they often hit a point at which the economic profile of independence is simply more attractive. They see the opportunity to earn more by providing even better services to the same client base, just in a new model. As RIAs, advisor teams have greater control over how they price their services and the ability to keep 100% of what they earn. Teams considering independence can work with their Schwab Business Development Officer (BDO) to see what their specific profit-and-loss picture may look like.

The economics of the RIA model are promising, and the ties holding teams in captive models are loosening as well. With many forgivable loans issued in 2008 and 2009 coming to an end and new loans bearing less favorable terms, many advisors are finding the time is right to move.

While the post-transition break-even point has accelerated, transitioning to the RIA model isn't about the payoff on day one. It's about long-term revenue generation and building enterprise value. Entrepreneurial advisors see the value in a forward-thinking strategy to build success over time. They gain an asset that they could monetize down the road by selling either partial equity or the entire business.

Then and now: Five-year AUM growth

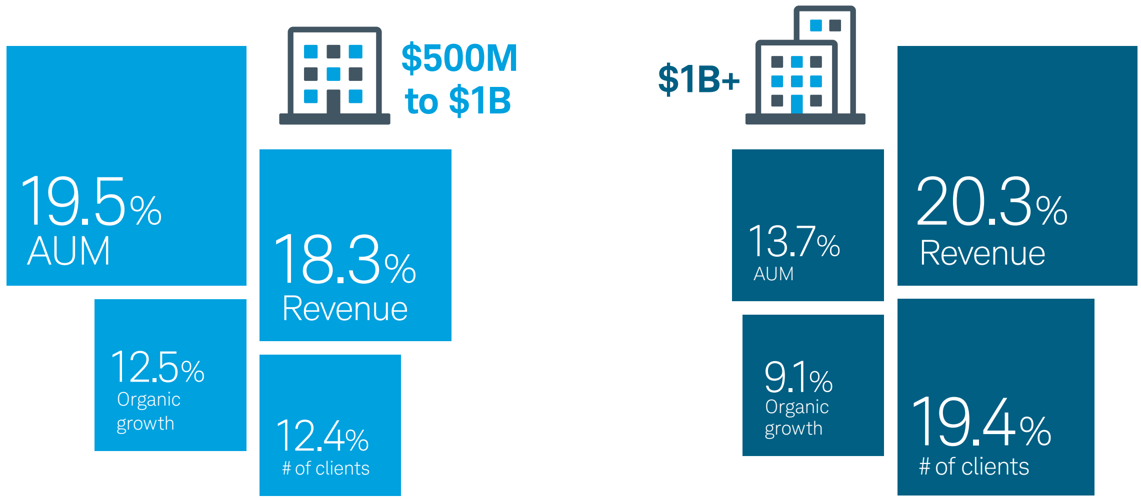
RIA firms can experience remarkable growth over time. Here is a snapshot of the growth that some advisor teams have seen over a five-year period, according to Schwab's 2016 RIA Benchmarking Study.[5]



Enhanced early growth potential

Recently transitioned RIA firms can experience a period of accelerated growth, per Schwab's 2016 RIA Benchmarking Study.[6]

Median five-year compound annual growth rates for recently transitioned firms



Proven successes

For advisor teams in a captive environment, the success of their peers within the RIA space can be inspiring. Billion-dollar-plus teams have recognized and seized the opportunity to achieve considerable growth in the RIA model.

The seeds of such success can sprout in transition. Schwab's 2016 RIA Benchmarking Study found that recently transitioned firms had set up efficient RIA businesses that showed a high potential for growth.[7]

Strategic teams see the RIA model as a chance to evolve and build scale to compete at the highest levels and provide a greater set of services to clients.

Industry veteran John Furey, a business consultant and founder of Advisor Growth Strategies, credits teams for making a strategic decision motivated by their desire to better serve clients. "Multi-billion-dollar teams don't view this as running from something," he says. "They view it as the best structural and long-term decision for the team and their clients." ■

If I decide to pay back my forgivable loan, when is the right time?

For advisors who are a few years away from an expiring loan, transitioning and paying it off right away could have a valuable upside. Your Schwab BDO can connect you with legal counsel and tax advisors to help assess the specifics of your situation, including the potential increased payout of the RIA model and its implications on capital gains and income taxes. In addition, lenders who work with RIAs may be able to provide financing, if needed, to pay off your loan.

The advantages teams gain as RIAs

Advisor teams that go independent gain the flexibility and control to build the reputation, the culture, and the client service model they want. Schwab BDOs can help teams solidify what that looks like and develop and facilitate a plan for how advisors can get there. Here are some of the benefits that the RIA model enables advisors to achieve.

Marketing power

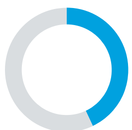
RIAs have the freedom to build an external brand according to their own vision. In fact, 43% of independent broker-dealer advisors cite greater marketing flexibility as a major reason they prefer transitioning to the RIA model.[8]

With such freedom, advisors "can truly go out and uncover what makes them different and explore that with their clients," says Kimberly Sanders, director of Business Consulting Services at Schwab.

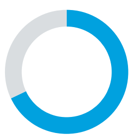
Identifying a differentiator or niche helps many teams take a strategic approach to targeting client segments that they may not have been permitted to pursue before. Nearly two-thirds of RIAs have used niche marketing and consider it to be among the most effective methods.[9]

Advisors also obtain greater freedom to determine how they communicate with their clients. For some teams, this includes capitalizing on more media opportunities with less red tape. David DeVoe, industry expert in valuation and founder of DeVoe & Company, recounts conversations he's had with newly minted RIAs who were surprised by how much media exposure they receive. "We've seen many cases where folks who have broken away say, 'I've been in *The Wall Street Journal* more than once, where at my former employer I never was.'"

Why advisors are interested in the RIA model



43%
of independent broker-dealer advisors cite greater marketing flexibility.[8]



68%
of advisors in the employee model reference more autonomy.[10]

Access to products

With an open architecture, RIAs have access to more products and services. Teams can count on doing virtually everything they currently do, and more. This can be a great client comfort as well, because they're unlikely to lose anything. What's more probable is that everything in their portfolios may be the same or better.

In fact, RIAs have wider access to products across the industry without the pressure to cross sell or meet sales quotas. This allows them to tailor sophisticated client solutions to the markets they serve and to provide conflict-free advice. For 68% of advisors in the employee model, such autonomy is a major factor in their interest in the RIA model.[10]

Advisors are free to take the path that best suits the needs of their firms and clients. For some, that means keeping their commission-based business and a broker-dealer affiliation in order to transition their entire book of business to the fee-based model over the long term. Others continue to offer hybrid services as part of their long-term strategy. Schwab BDOs can help teams pinpoint the strategy that steers them in the desired direction.

"We've seen many cases where folks who have broken away say, 'I've been in *The Wall Street Journal* more than once, where at my former employer I never was.'"

Dave DeVoe
Founder of DeVoe & Company

Control over business

By becoming independent advisors, teams gain absolute control over the direction of their businesses. Everything from the service model to firm operations to future goals is under their jurisdiction.

The RIA model lets advisor teams select the latest operational components such as technology, benefits administration, compliance, and investment management that fit their specific needs. And with providers and vendors seizing their own opportunities in the RIA space, teams have plenty of choices for enhancing their service efficiency.

?

How will your partnerships evolve in the RIA model?

Each member of your team brings unique talents and expertise to the table to help you build something worthwhile together. Schwab BDOs and consultants can guide discussions among your team so that everyone can align on what your future looks like. Do you want to grow, acquire firms, or build a legacy? Does anyone plan to bring family into the firm? Merging your vision with your partners' is important. This will help you establish a unified message and value proposition.

"Vendors in the world of operations have become more sophisticated," says Focus Financial Partners' Chris Dupuy. "Subject-matter experts can help advisors work through the process, from evaluating vendors to performance reporting."

Schwab BDOs have deep connections with in-house partners and third-party consultants and providers, and can introduce teams to experts who can help design their firms and determine which pieces of business to outsource and which to keep within their own walls.

Strategic teams capitalize on this opportunity to institutionalize business processes and build unlimited capacity into their systems. This enables them to increase profitability with each additional client.

"You have to find ways to differentiate yourself," says Shirl Penney, president and CEO of platform provider Dynasty Financial Partners. "That requires getting to scale faster, something that's easier to do when you have multiple advisors to break up roles and responsibilities."

Nearly

60%

of relationships for billion-dollar-plus RIA firms comprise high-net-worth clients.[11]

Freedom to serve clients

Large teams of advisors may serve sophisticated investors with complex needs. These clients often seek one trusted advisor who can handle everything: estate and tax planning, charitable giving, retirement income planning, cash management, and more.

The RIA model gives advisors the flexibility to win and serve these high-net-worth relationships. In fact, high-net-worth clients (defined as having more than $5 million in investible assets) compose nearly 60% of client relationships for billion-dollar-plus RIA firms.[11]

Making the transition also gives advisors greater freedom to differentiate themselves with soft services, which are becoming increasingly important to high-net-worth investors.

These can include services such as estate and tax planning, lifestyle management, charitable planning, insurance, and family education. Schwab BDOs can help advisor teams determine if these services should come from third parties or stay in-house. The main point is that RIAs excel at this type of service because of their objectivity. They're on the same side of the table as their clients.

Opportunities for inorganic growth

Removing the constraints of a captive environment can unlock organic growth for advisors. But advisor teams are also capitalizing on inorganic growth potential.

The number of mergers and acquisitions in the RIA space continues to rise—not only in volume but also in magnitude. Total deal value increased 186% from 2014 to 2016, rising from $47.4 billion to $135.5 billion.[12]

"We see mergers and acquisitions as a sub-story of the growth of the independent advisory industry in general," says Jon Beatty, senior vice president of Schwab Advisor Services™. "As the RIA channel becomes more successful, M&A activity is going to follow suit." Beatty adds that advisors are merging for many reasons, including succession, scale and efficiency, geographic strategies, or building durability and a long-term business model.

DeVoe cites similar reasons for acquisition momentum. "RIA teams are building more than a client platform," he says. "They're building a platform that other advisors can join."

?

If I'm a few years away from retirement, are there upsides to adopting the RIA model?

Advisors who are nearing retirement may find that transitioning their books of business to the RIA model can be a lucrative exit strategy. Possibilities include folding into an existing RIA or selling to an internal successor who makes the move with them. Agreements can be structured so that the advisor has more control over when to step down, which isn't always the case in captive environments. Schwab BDOs can help you explore your options and determine the best path forward for your specific situation.

Potential to build a legacy

As partial or full business owners, RIAs have the chance to propel their firms across generations. Succession strategies also can help maintain continuity. Schwab BDOs can connect advisors to resources that can help them create the best plan for themselves, their clients, and their successors. Schwab's executive leadership program can support advisors in grooming the next generation of senior executives.

Teams seeking to build a legacy firm shouldn't put an individual advisor's name on the door, says Penney. For clients to feel secure and supported when advisors choose to exit the practice, he says, they need to feel connected with the firm brand rather than with specific individuals. Legacy firms can benefit from institutionalizing client relationships in this way. ■

Exploring the support ecosystem

There's no single right way to transition to the RIA model. The support ecosystem has evolved as the channel has grown, forming multiple inroads to deliver the resources that advisor teams need. And with every connection made, their bench gets deeper.

"The level of sophistication that's possible is made for entrepreneurial advisors," Schwab's Tim Oden says. "There are an infinite number of ways you can put together a highly customized solution for your practice." Schwab BDOs can match and connect advisor teams with leading experts and consultants to guide the creation of unique plans that support long-term achievement.

Support networks operate in different ways, but they can all work together to help ensure a smooth transition that positions advisor teams to reach their future potential.

How long do transitions take?

Typically, the process can take four to eight months, depending on the pathway and support system you choose. That includes due diligence as well as executing the transition. Decide on the transition timeline that works for you with the help of your Schwab BDO. Keep your transition plans confidential, even among your most trusted friends and family. The faster the transition timing and the fewer parties involved, the better.

Equity partners

An equity partner can provide advisor teams with capital for the transition and growth by buying a portion of their cash flow.

Equity partners may be private investors who don't involve themselves much in firm operations. Or they can be companies whose purpose is to provide advisor teams with not only financial backing but also turnkey platform services such as technology, investment management, and compliance. In the latter scenario, they can provide ongoing practice management and marketing and consulting support to help advisors both optimize day-to-day operations and define and execute long-term strategies.

Focus Financial Partners, a firm that invests exclusively in fiduciary wealth management businesses, is a standout example of this latter type of investor. The Focus team wades in shoulder to shoulder with advisors and offers transition project management in those crucial first few months, when advisor teams are learning how to run their businesses. They work closely with advisors' custodians to help with everything from technology to account transfer to setting up the first billing cycle.

"You get one entrance into this world," says Focus Financial Partners' Chris Dupuy. "We work on all the details so advisors can spend time thinking about their clients."

And they take a forward-thinking approach to those details, helping advisors build a foundation that will continue to support them as they scale and grow. Keeping with the spirit of independence, Focus Financial Partners wants advisor teams to maintain full control of their destiny. Dupuy says that the firm will never turn a successful entrepreneur into an employee.

"You get one entrance into this world. We work on all the details so advisors can spend time thinking about their clients."

Chris Dupuy
President—Independence at Focus Financial Partners

Platform providers

Platform providers help advisor teams launch and run their businesses efficiently using turnkey solutions. They typically operate on a contract basis without an equity stake in the advisor's business.

With this support, advisors can take the operational elements of business—such as selecting and maintaining technology, recordkeeping, investment management, and ongoing compliance—off their plates. More than that, teams can rely on providers and custodians to work together to deliver business consulting services, which will help to institutionalize and scale their firms. Platform providers can also offer outsourced professional management, another benefit that can make transition and growth easier.

As with equity partners, advisor teams can also rely on platform providers to work with them to develop marketing strategies and collateral, including their websites. They may also coach and train teams in practice management.

Will your clients come with you?

You've worked hard to cultivate lasting and personal relationships with your clients. Those relationships are yours, not your employer's, and most of them are likely to follow you. Your support network can help you solidify your retention strategy and craft messages for communicating the move. This is also an opportunity to work with your BDO to identify the clients you want to bring over. Remember, this model has the potential to be more profitable. Your revenue per client typically improves, which gives you more opportunity to maximize revenue overall, regardless of whether you invite every client to join you.

"We give teams the space to evolve from world-class advisors into world-class CEOs," explains Shirl Penney of Dynasty Financial Partners. He describes Dynasty as an unseen force powering firms, akin to the Intel sticker found on computers.

Dynasty also empowers its teams with access to a solid community of like-minded, elite independent financial advisors. These advisors share best practices and can tap into the community's intellectual capital to deliver more specialized expertise to their clients.

Consultant services

Some of the longest-tenured business consultants in the industry have made their services available for breakaway RIAs. Schwab BDOs can help advisors figure out whether independence is right for them and then connect advisors to—and work closely with—consultants to help advisors determine which type of transition makes the most sense. If the team chooses to move forward, they can also rely on assistance in laying down business fundamentals such as partnership design and organizational structure.

Advisor perspective

Ross Fox, founding partner, Cardan Capital Partners

Q ***What led you to the RIA model?***

A I started in this industry in 1987. For many years, our wirehouse had a real cachet. As time went by, it got stuck while the rest of the world moved forward. The uniqueness of their offering eroded significantly over time. Our team could no longer rely on wirehouse platforms to give us the tools or flexibility to create a distinctive offering or presence in the market. Our clients needed more open services, and we wanted more flexibility on the succession side. I didn't have confidence that the retirement packages offered were going to get better. The RIA model was a better platform for our clients and for us.

Q ***What helped drive a successful transition process?***

A Dynasty Financial Partners was there to help us launch. They took the administrative burden off our shoulders and allowed us not to get bogged down in all the nuts and bolts. We could stay focused on contacting clients and telling our story. Our clients' receptivity to the move was much better than we anticipated. Their loyalty was really with us. Our goal was to retain 75% to 85% of our revenue; we are currently on track to exceed that range. We were told that would be the case, but until you go through it, you don't believe it.

Q ***What's different about your business and the way your team operates today?***

A The perception of us as a firm for high-net-worth clients has enhanced since we left. Our clients are more comfortable giving us referrals now. In the past six months, we've gotten more referrals and client assets previously held away than we did in the last few years at our wirehouse.

Part of that could be because the RIA model is much more open and transparent. Our ability to pick and choose is not driven off of profit centers. We can incorporate more of the products we want, which allows us to maintain and actually build on our goal of providing unique and innovative offerings to our clients.

Consultants may work independently or alongside other support systems to project-manage transitions and to provide business operations consulting, including strategic planning, mergers and acquisitions support, and succession planning. During transition, there are many choices to be made about firm processes. But consultants and custodians can work together to assist firms in narrowing options and thoughtfully selecting each product and provider based on the needs of their clients and business.

Each consultant's involvement in the transition process can range from turnkey solutions to ala carte provision of specific services. Schwab's business consulting team works side by side with others to help guide firms through the initial move and as they grow with industry-leading practice management support.

Custodian support

Whichever path an advisor team chooses, it will hold client assets with a custodian. But custodians are more than just a place to hold assets. Advisor teams should be able to rely on support from an experienced custodian at every turn.

Schwab Advisor Services™ is among the custodians that can guide teams through a transition, connect them with leading in-house and third-party consultants and providers, and deliver practice management mentorship over the long term.

?

Preparing for legal elements of transition

Industry legal expert Brian Hamburger says large teams can have more complex pictures to handle. With considerations such as multi-state registration, dynamic service offerings, maintaining broker-dealer affiliations, or insurance needs, they'll likely need to disclose more activities than the typical advisor would. Legal consultants such as Hamburger can help with risk mitigation and regulatory compliance throughout the transition, as well as ongoing compliance.

As elite advisor teams forge new ground for the financial advisory industry, they need advocates in their corner who understand both where the RIA space has been and where it's headed. As one of the pioneers of the RIA industry, Schwab remains at the forefront as the industry's leading custodian, providing a stable source of service and localized, premier support for RIAs. In fact, RIA custody represents nearly half of Charles Schwab's business as of year-end 2016.

Business consultant Kimberly Sanders says being 100% focused on advisors' needs is important to her and everyone at Schwab.

"We're all about creating that safety net," she says. "If advisors don't know the question to ask, we do. If they don't know that there is a gap, we've identified it for them."

Existing firms

Advisor teams can leverage an established RIA infrastructure by joining an existing firm. They get to experience many benefits of the RIA model, but they can spend more time focused on serving clients than on building a business.

Acquiring firms look for teams that fit their company culture and bring new expertise. They also consider whether size, geography, clients, and investment philosophies are a good match. Teams can negotiate the terms of the deal, which can be structured in a variety of ways and sometimes include ownership. ■

Financing the transition

Lenders can provide upfront capital to help cover costs, including leasing office space, purchasing IT systems, and even paying salaries. Jason Carroll, managing director of investment advisory lending at Live Oak Bank, a leading lender for financial advisors, calls this "sleep-well-at-night money." He says that solidifying how to pay for such business expenses can help advisors stay focused on clients during the transition. Charles Schwab & Co. can also provide qualified advisors with business loans to help them start and expand a successful independent practice.

Advisors can take proactive steps to prepare for lending conversations, such as defining the monthly amount necessary to operate the firm for the first year, and annually or quarterly thereafter. Carroll says lenders' considerations include credit standards, ADV or FINRA reports, cash flow, affordability to debt, professional character demonstrated, and the security of client relationships.

A new era for the industry?

Independent advisors have more freedom to put clients first and offer the products and services they need. They can control their marketing message, define how their businesses should run, capitalize on greater economic potential, and build legacies that last. More and more, teams are recognizing this potential and going after it by transitioning to the RIA model.

The movement continues

Faced with the industry climate and investors' intensifying calls for independent advice, large advisor teams seeking the benefits of independence continue to break away to the RIA space.

As they move, Schwab Advisor Services™ is uniquely positioned to help them every step of the way. As one of the original innovators of the industry and the leading advocate for moving the model forward, Schwab works with—and custodies assets for—more RIAs than any other custodian. Along the way, Schwab has helped thousands of advisor teams solidify their future by going independent.

> "This becomes a self-fulfilling prophecy. More advisors will be attracted to the model, and more capital will come into the space, which just keeps fueling the fire."
>
> **Shirl Penney**
> President and CEO of Dynasty Financial Partners

Schwab's Tim Oden believes these breakaways are part of an accelerating, consistent movement. "The advisor business model is changing because consumerism is changing," he says. "The RIA model is proving over and over to be the right fit for the industry's future."

The numbers support this perspective. Cerulli projects that the independent RIA and hybrid channels will grow from 23.3% market share of advisor-managed assets in 2015 to 28.1% in 2020, while wirehouse share is projected to decline.[13]

Skyrocketing prospects

Numbers like these have industry leaders who have staked the fate of their companies on the success of the RIA model feeling bullish.

"The real catalyst for extreme growth is going to come from these elite advisors at the major firms that begin to make the decision to move to independence," says Focus Financial Partners' Chris Dupuy. "And we think we're only in the first or second inning there in terms of that movement."

With increased movement among billion-dollar teams, the needle—and potential—for large RIAs continues to tick upward. Dynasty Financial Partners' Shirl Penney predicts that in 20 years, the industry will see $50 billion to $100 billion RIAs.

He also sees the possibility for exceptional achievement in more than just numbers. Penney believes that in as soon as 10 years, large RIAs could be household name brands.

"This becomes a self-fulfilling prophecy," he says. "More advisors will be attracted to the model, and more capital will come into the space, which just keeps fueling the fire."

28.1%

of advisor-managed assets are projected to be held within independent RIA and hybrid channels by 2020.[13]

Claiming the opportunity

All of this points to unprecedented growth potential for entrepreneurial advisor teams that join the breakaway movement to the RIA model.

Greater freedom was once the primary allure of the RIA model. Now, it's joined by a deepening sense of security created by decades of success and thousands of successful transitions. Advisors have more tested avenues to becoming independent RIAs, along with strong support networks.

The opportunity is no longer uncharted, but much of it is unclaimed and waiting for ambitious teams to stake their territory. ■

Advisor perspective

Chris Allegretti, managing principal and CEO, and Scott Cross, principal and COO, HBKS Wealth Advisors

Q *How does your firm approach growth?*

A **Scott:** In 2001, we had approximately $150 million in AUM. Now, we're over $2.4 billion in AUM. The vast majority of our growth was organic. Recently, we've had a couple of M&A activities too. But we're not in this just to get bigger. We're not an aggregator. We're looking for opportunities where one plus one is greater than two.

Chris: We don't chase numbers. We chase like-minded individuals. We like the culture we've built and the speed at which we're growing. We find opportunities that fit our strategy. The first litmus test for us when adding anyone to our firm is whether there's alignment on what we're trying to achieve.

Q *What does holistic client service mean to you?*

A **Scott:** We feel strongly that having planning conversations versus simply focusing on investment management drives deeper, more valuable, and longer relationships.

Chris: We constantly challenge our firm to make sure that we're providing the services our clients value most. It's amazing what you can learn when you ask clients what keeps them up at night. Clients are getting more and more sophisticated. They're looking for more and more value-added assistance in all facets of life. They not only want to talk about what's going on in their portfolio but also what's going on with the closely held company that generates the wealth managed within it.

Q *How and why has the firm institutionalized?*

A **Scott:** We redefined how we did business—and Schwab was very helpful in guiding us through all the details. We took all the operations and built technology platforms and integrated as many systems as we could. Now our advisors spend less time managing accounts and more time interacting with clients and prospects.

Chris: One of the nice things about being closely held is that you get to make choices. Our goal is to systematize as much as we possibly can, so that we can humanize the important stuff: the conversations with clients. The only thing worse than change is being irrelevant. We'll continue to make whatever changes are needed to stay ahead of the curve.

Join the movement.
Start a confidential conversation about the opportunities for your team.
Contact a Schwab Business Development Officer at advisorservices.schwab.com or call 877-687-4085.

About Schwab Advisor Services™

Schwab Advisor Services is the industry leader and largest custodian of RIA assets,[14] 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 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 advisors' behalf.

1. *The Cerulli Report: RIA Marketplace 2016,* Exhibit 2.02.
2. *The Cerulli Report: RIA Marketplace 2016*, Exhibit 2.14.
3. Analysis of U.S.-based, retail-focused RIA marketplace, Schwab Competitive Intelligence, 2015.
4. *The Cerulli Report: RIA Marketplace 2016*, Exhibit 1.06.
5. 2016 RIA Benchmarking Study from Charles Schwab, fielded January to March 2016. Study contains self-reported data from 1,128 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.
6. Ibid.
7. Ibid.
8. *The Cerulli Report: RIA Marketplace 2016*, Exhibit 4.01.
9. *The Cerulli Report: RIA Marketplace 2016*, Exhibit 1.05.
10. *The Cerulli Report: RIA Marketplace 2016*, Exhibit 4.04.
11. *The Cerulli Report: RIA Marketplace 2016*, Exhibit 5.06.
12. Charles Schwab internal analysis of RIA mergers and acquisitions activity, 2016.
13. *The Cerulli Report: U.S. Intermediary Distribution 2016*, Exhibit 2.13.
14. Charles Schwab Strategy.

AHA (0417-WZXU) MKT96610-00 (04/17)

00192611

charles SCHWAB

Own your tomorrow.