The Myths and Realities of Becoming an RIA

Know the Facts Before Making a Move

TD Ameritrade Institutional

Perspective

Executive Summary

Many financial advisors increasingly understand the potential benefits of "going independent," though there are still misconceptions around what it means to be a Registered Investment Advisor (RIA).

Becoming an RIA is a big step, so it is important to know the facts before making a transition. This piece is intended to bring to light the common myths about RIA firms, and arm you with information about the realities of what it truly means to go independent.

Your Step-by-Step Guide to Becoming an RIA

At TD Ameritrade Institutional, we have a passion for helping advisors become RIAs, and the experience to help advisors with different goals and ambitions. Our Bridge to Independence program arms advisors with the tools, capabilities, and know-how to become an RIA.

A Quick Glance: The Myths and Realities of Becoming an RIA

Myth	Reality
My practice isn't large enough to become an RIA	Advisors choosing to make a move span asset and production levels, and typically fit a particular "entrepreneurial" mindset
The transition is too hard and I will lose clients and revenue	While moving from one firm to another firm or channel is a big commitment, most advisors have very successful transitions and client loyalty remains high
I won't grow client assets the first year after I transition	Growth potential is high; in fact, wirehouse market share decreased by 10% between 2007 and 2013, while RIA market share grew 22%.[1]
I will have to give up my securities licenses and commissionable business	Advisors may choose a "hybrid" model which enables them to maintain their licenses while still being independent, giving them the ability to do both fee and commission business
If I go independent I may make less money and lose my retirement plan	Independent firms' economic structures enable advisors to keep 100% of their revenue and also enable them to build business equity that can be monetized upon retiring
I will not have access to robust technology as an RIA	Industry analysts and advisors feel the technology available to independent advisors rivals what is available for wirehouse representatives, given the focus on the needs of RIAs in recent years[2]
I won't have access to a broad range of investment products	By becoming an RIA, you have the ability to select the products most appropriate for your clients. Asset custodians often work with RIAs to add new investment vehicles to their product lineup
I won't be able to grow as an RIA without a big Wall Street brand-name and budget	Establishing your own brand or leveraging the brand of an existing RIA has benefits as consumer preferences are shifting
It will be cumbersome and difficult for me to establish an RIA	Unlike a decade ago, the resources available to you now are vast and plentiful. Custodians like TD Ameritrade Institutional have systems, processes, and people to help you realize your vision for independence

[1] From 2007-2013, RIAs grew its market share by 22% while wirehouse declined 10%.
Notes: RIA Channel includes fee-based assets managed by dually-registered advisors.
Source: Cerulli "Advisor Metrics 2014"

[2] Advisor Growth Strategies, 2015

Understanding the Facts

Myth 1: My practice isn't large enough to become an RIA

Reality: Advisor preferences are evolving, and advisors choosing to make a move span asset and production levels. Indeed, every month, our industry sees a major defection from advisors either starting or joining an RIA firm. The RIA market experienced tremendous growth over the past decade.

Advisors who choose to go independent typically fit a particular entrepreneurial mindset, seeking to solve a more strategic challenge or seize an opportunity to:

- Build equity in a business that can be monetized or transferred one day
- Do what's in the best interest of the end client
- Attain better economics for clients and for the firm
- Gain more control over branding or marketing

There are many options for independence beyond starting your own business, including joining an existing independent firm. TD Ameritrade Institutional has helped thousands of advisors make the move. We can help you think through the considerations to choose the path most appropriate for you.

Myth 2: The transition is too hard and I will lose clients and revenue

Reality: Moving from one firm to another firm or channel is a big commitment, and there are questions you maybe asking yourself such as:

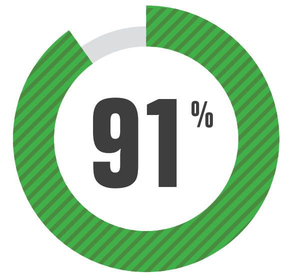
- Will my clients follow me if I go independent, or will they see my transition as an easy way to move to a new advisor?
- Will I be on my own without a big-name firm behind me?
- Can I deliver equal or better service as an RIA?
- How will my clients be affected by a move?

Although these concerns are valid, the reality is that most advisors have very successful transitions and client loyalty remains high. Advisors who moved to the RIA channel in 2013 saw 91% of their targeted assets transfer with them.[3] Based on past results of advisor transitions, you should have confidence that the majority of your clients will likely transition. Mike MacNamara, Senior Partner, MacNamara Financial Services, Inc., noted, “The process (to transfer clients) unfolded in less than a week’s time.”[4]

The transition capabilities when an advisor chooses to become an RIA have also increased significantly. New services and legal frameworks help make advisor transitions more streamlined and efficient. The main changes you may experience include:

- Streamlined new account paperwork offered by custodians such as TD Ameritrade Institutional
- Dedicated transition resources within technology companies, custodians, and other RIA providers
- The ability to gain an understanding of how “Broker Protocol” may affect your transition
- Improved technology capabilities of the RIA channel that can help speed the transition process

% of Targeted Assets that Transitioned with their Advisor



Advisors who moved to the RIA channel in 2013 saw 91% of their targeted assets transfer with them.[3]

Changes You May Experience

Streamlined new account paperwork

Transition resources

Understanding of Broker Protocol

Improved technology

Additional Guidance

A step-by-step approach can allow you to focus on your most important asset–your clients–before, during, and after your move. “One of the things TD Ameritrade Institutional did for us, is they made us feel at home, put great people around us, and helped us through the transition.”

- Dan Hypes, CEO, Lifeplan Financial Group

[3] Cerulli "Advisor Metrics 2013: Understanding and Addressing a More Sophisticated Population"

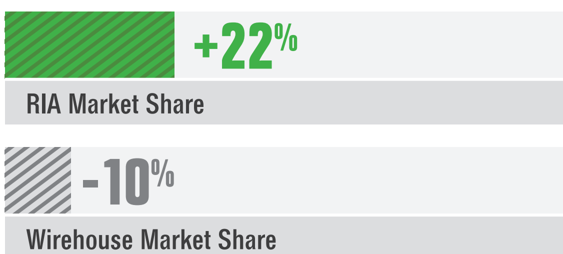
[4] Actual results may vary

Myth 3: I won't grow client assets the first year after I transition

Reality: Advisors who decide to make the transition to become an RIA want something more for their business and their clients. They may want better service and technology, or they may want better economics for their clients or themselves, or there is a belief they can accelerate growth by going independent. Although these categories are general, you may have a far more personal trigger that provides the energy, focus, and resolve to move forward with making a change.

Advisors might believe that a transition will be so disruptive to their practice that it will be difficult to focus on growth for the first year. While becoming an RIA will require you to spend time on new opportunities such as learning new systems, building processes, establishing your brand, client communications, and other key elements of starting a business, these are "one-time events" and growth potential is high. In fact, wirehouse market share decreased by 10% between 2007 and 2013, while RIA market share grew 22%.[5]

Market Share Comparison between 2007 and 2013[5]



The question you should ask yourself is "What business model would be better for me when it comes to growing my business?" Ron Wyatt, Managing Principal, JFS Wealth Advisors, stated, "There is much more flexibility. Our growth potential is higher in the RIA channel." The reality is that you have the opportunity to grow on day one, given the more streamlined processes available to you and your own personal focus. If you decide that starting your own RIA may not be your best path, you can consider joining an existing independent entity instead.

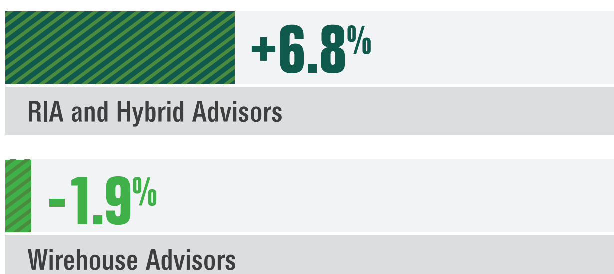
[5] From 2007-2013, RIAs grew its market share by 22% while Wirehouse declined 10%
Notes: RIA Channel includes fee-based assets managed by dually-registered advisors.
Source: Cerulli "Advisor Metrics 2014"

Myth 4: I have to give up my securities licenses and commissionable business

Reality: Many independent advisors prefer a fee-only model, while others operate as a "hybrid", aligning their licenses with an independent broker-dealer. This hybrid model enables them to maintain their licenses while still being independent, giving them the ability to do both fee and commission business. And the hybrid model is growing in popularity; combined headcount for RIAs and hybrid advisors is projected to grow at an annualized rate of 6.8% through 2018. Wirehouse headcount is projected to decrease 1.9% through the same period.[6]

TD Ameritrade Institutional will help you navigate that decision to either take a fee-only approach or keep your commission-based business, and if needed, introduce you to broker-dealers serving hybrid advisors. We consult with you to understand your unique and personal goals, and we tailor our solution to your individual requirements.

Projected Headcount Growth Rate through 2018[6]



Additional Guidance

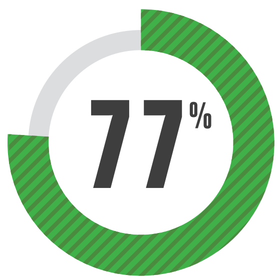
TD Ameritrade Institutional's RIAConnect™ program was established to help match advisors who want the benefits of independence—without the responsibility of business management—with established RIA firms. Many of the participating RIA firms already have broker-dealer relationships, which may allow you to keep your commission-based business. The benefit to advisors is the ability to focus on client relationships, while the existing independent firm provides the support services.

[6] Cerulli "Advisor Metrics 2014"

Myth 5: If I go independent I may make less money and lose my retirement plan

Reality: More than three-quarters of financial advisors who moved to an independent business model report they are better off financially.[7] One reason for this may be that independent firms' economic structures enable advisors to keep 100% of their revenue. With industry averages for overhead expenses coming in just below 37%, advisors typically net a over a 63% payout after overhead expenses,[8] which is double the typical wirehouse payout on the grid.

% of Financial Advisors Better Off Financially[7]



Economic Illustration: Advisor with $2.5 Million Production

Current State: Wirehouse			Future State: RIA	
Gross production	$2,500,000		Fee revenue	$2,500,000
Broker-dealer split	$1,450,000	→	Broker-dealer split	$0
Advisor payout	$1,050,000		Advisor payout	$2,500,000
Advisor expenses	$50,000	→	Advisor expenses	$925,000
Advisor net income	$1,000,000		Advisor net income	$1,575,000

Note: Economic illustration is for illustrative purposes only. Gross production, broker dealer split, and advisor payout will vary from firm to firm. Source: Advisor Growth Strategies.

Owning a business could also bring additional short-term and long-term tax benefits that may help offset costs of investing in your business. Speak with your tax professional about your specific situation and business structure. By establishing an independent firm, advisors also build business equity that can be monetized upon retiring.

[7] Envestnet, "Compendium of Industry Trends", April 2014
[8] 2013 FA Insight Study of Advisory Firms: People and Pay

Myth 6: I will not have access to robust technology as an RIA

Reality: By becoming an independent RIA, you get to take advantage of the open architecture ecosystem and make your own purchasing decisions. You may choose to select “best-in-breed solutions” to automate key functions such as proposal generation, reporting, trade order management, research, and client relationship management, among others. Some newly minted RIAs may choose to take a more turnkey approach and select a single technology provider.

Industry analysts and advisors feel the technology available to independent advisors rivals what is available for wirehouse representatives.[9] While Wall Street firms have been busy integrating systems from mega-mergers, independent advisory platforms over the past decade have been innovating to create flexibility, choice, and integration. Technology innovation has helped improve the delivery of advice, enhancing advisors’ lives and the lives of their clients.

Innovative Independent Advisory Platforms

Flexibility | Choice | Integration

Advisors who work at large institutions may feel their large national brands have far greater size, scope, and resources that ultimately lead to a richer and more advanced technology. Although these large institutions invest heavily in advisor technology, RIAs are enjoying the same level of technology investment from their providers. Over the past decade, RIAs have seen an incredible increase in the number of technology providers, integration points between providers, and significant advances in the value delivered.

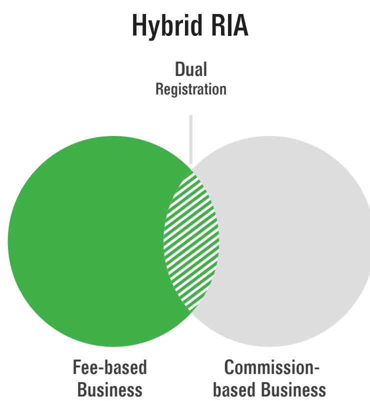
Additional Guidance

At TD Ameritrade Institutional, our goal is to consult with you to find the best fit for you and your business. The heart of our technology system acts as the hub for your technology solution, and we build integration points with the best the RIA industry has to offer. RIA technology may offer you a superior solution to what you have today. The only way to determine if this is true for your practice is to become educated and find out.

[9] Advisor Growth Strategies, 2015

Myth 7: I won't have access to a broad range of investment products

Reality: RIAs enjoy a different approach to product and investment access. First, a structural note: fee-only RIAs do not get paid for product usage. Instead, RIAs charge a fee for their advice and select the investments that are right for their clients. If you choose to charge a commission for an investment solution, you can become a "hybrid" RIA and have a commission-based option as part of your solution set. Sean Curley, Founder, The Retirement Planning Specialists, LLC., noted, "For me, the big issue was control over my business, our products, and my client relationships... and to do what's right for clients."



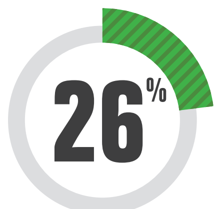
Successful financial advisors are always looking for best-in-breed investment solutions for their clients. In fact, your clients may hold positions that are only available at your firm, whether the products are from third-party providers or your firm's parent company. Despite the perceived benefits proprietary products may offer, many advisors find it challenging to get investment solutions added to their product lineup if they are currently off the menu.

Asset custodians, like TD Ameritrade Institutional, play the role of being the custodian and record keeper of client assets. Instead of seeking to specify certain investment solutions to you, independent custodial providers work with you to add investment solutions to their platform to suit your needs. What's different is that by becoming an RIA, you have the ability to select the products most appropriate for your clients without the challenges of a closed or top/down broker-dealer process.

Myth 8: I won't be able to grow as an RIA without a big Wall Street brand-name and budget

Reality: Many advisors consider being a business owner the hallmark of success, and some refer to being an independent RIA as the last transition they will make in their career. Once an advisor becomes an RIA, there are rarely any additional moves to another firm, given the substantial benefits that can be gained. Leaving the perceived “air cover” of a national or well-established brand could leave advisors wondering if they will still have the same level of marketing support, or if a local brand will properly resonate with existing clients and potential new clients. However, after the financial crisis, many firms' brands have been tarnished in the eyes of investors. In fact a June 2013 Gallop poll found that only 26% of Americans have a lot of trust in national banks.[10] An independent firm working with a strong custodian is seemingly becoming more and more attractive to many high-net-worth investors who previously engaged with traditional Wall Street firms.

% of Americans that Trust National Banks[10]



Only you can determine whether trading your firm's existing brand for a more boutique brand of your own is the right fit. However, establishing your own brand has its benefits:

- The ability to establish your own unique value proposition
- Sitting on the same side of the table as your clients
- The opportunity to build your own integrated sales and marketing plan and execute it the way you see fit
- The ability to develop client communications without many of the approval restrictions of a national financial services firm
- Greater control of the client experience in terms of establishing an office, client reports, phone channel, email channel, Web, and all other day-to-day touch points with your clients
- The ability to establish creative marketing channels such as leveraging the media through public relations, the ability to network more effectively in local markets, and the potential to leverage social media in a more meaningful way

[10] June 2014 Gallup Poll

Myth 9: It will be cumbersome and difficult for me to establish an RIA

Reality: Building a new business and becoming an RIA is a significant undertaking. When advisors decide to make a transition to become an RIA, they spend a good deal of time and energy preparing for and executing against the development of their new business. To obtain the confidence to go through with establishing an RIA, an advisor believes the long-term benefits realized are greater than the effort to go through with the move. Hundreds of advisors make this trade year in and year out, resulting in the RIA channel being the fastest-growing channel in financial services.[11]

Unlike a decade ago, the resources available to you now are vast and plentiful. Custodians like TD Ameritrade Institutional have systems, processes, and people with deep competencies and capabilities to help you realize your vision for independence. A dedicated team will assist in all aspects of the transition process, from locating real estate to selecting technology to identifying compliance professionals to get you up and running quickly and seamlessly.

The RIA ecosystem has also matured significantly, and you have the option of hiring consultants, platform providers, and other value added partners, essentially outsourcing much of the transition process.

If starting your firm still isn't right for you, you are not alone. We've found that one in four advisors who have made a move have joined an existing firm. If you feel joining an existing RIA is the best path for you, you stand to realize an instant benefit, given that the firm you may join likely has a "plug and play" solution, essentially neutralizing much of the work of establishing an RIA business.

One in Four Decide to Join an Existing RIA Firm

Additional Guidance

Whether you are ready to become an RIA now, or just exploring your options to make a move, our Bridge to Independence program makes it easier for you, bringing you a comprehensive suite of resources, services, and tools to guide you through a smooth and successful transition.

[11] Cerulli "Advisor Metrics 2014"

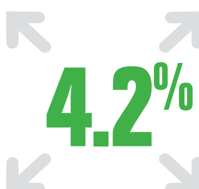
Models of Independence

Model	Start an RIA	Hybrid or Dual Registration	Join an Existing RIA
Description	Build your own entity	Start or join an existing RIA and align with a broker-dealer for commission business	Become part of an existing RIA as an employee or owner
Mindset	"Now is my time. I have the confidence, experience, and entrepreneurial spirit to make my business vision come to life. I want to start my own firm."	"I want to become an RIA but I don't want to leave all of my commission-based business behind"	"I'm interested in all the benefits true independence has to offer; I'm just not sure I'm ready to start my own business. I want to join an existing firm."
Key Attributes	▸ Complete ownership of business ▸ Select best–in–class providers to automate business ▸ Responsible for all elements of advisory and business management	▸ Start an RIA and identify a broker-dealer for commission business, or join an existing RIA with a broker-dealer solution ▸ Dual oversight from FINRA and SEC ▸ Broad set of solutions outside of investments (e.g. insurance products, alternative investments, etc.)	▸ Leverage existing brand, process, and systems of an existing RIA firm ▸ Wide diversity of models and approaches ▸ May have significant local or regional advantage
Benefits	▸ Maximum control ▸ Control economics and expenses ▸ Maximum compliance flexibility	▸ Ability to have both fee and commission business and retain revenue related to past and future commissionable sales ▸ Ability to build broad wealth management capabilities ▸ Expanded access to products only accessible on a commission basis	▸ Existing brand of RIA ▸ Built–in capabilities ▸ Business continuity ▸ Potential for liquidity
Considerations	▸ Requires business management acumen	▸ Strategic fit with broker-dealer for commission business ▸ Responsible for following broker-dealer compliance guidelines ▸ Requires integration of systems, processes, statements and communications	▸ Cultural fit ▸ Alignment of investment philosophy ▸ Matching compensation

Conclusion

Now may be a good time for you to consider making a move. If you have been concerned about the tarnish on the brands of major Wall Street firms, or have been watching your payout decrease, you're not alone. The shift towards independence is still going strong as assets under management in the RIA space have grown at 4.2 times the rate of those in wirehouses.[12]

Growth Rate of RIA Space versus Wirehouses[12]



There is a strong appeal for advisors on many levels. Becoming an RIA is an excellent way to deliver a superior experience to your clients, and potentially accelerate the growth of your business—building assets in your own firm and creating enterprise value from day one. Advisors like you may have preconceived notions of challenges and limitations of being an RIA that may not actually be true—but may be holding you back. Going independent does not have to mean going it alone.

At TD Ameritrade Institutional, you can count on our expertise and consultative approach to educate and guide you throughout the process. We will help you distinguish the myths from the realities, answer your questions about the process, and help ensure you make the most informed decision for your business. From the moment that you determine you want to make a change, TD Ameritrade Institutional is committed to you every step of the way.

To learn more, please call us or visit our website:

800-934-6124
tdainstitutional.com

[12] From 2007-2013, RIAs (53% change) grew 4.2 times vs wirehouse (13% change).
Notes: RIA Channel includes fee-based assets managed by dually-registered advisors. Source: Cerulli "Advisor Metrics 2014"

About the Contributor

Biography

Scott Collins, Director of Hybrid and Advisor Transitions. Scott leads TD Ameritrade Institutional's recruiting and consulting efforts for brokers and advisors considering becoming a hybrid or fee-only RIA. Scott has more than 20 years of experience in the advisory industry. Prior to joining TD Ameritrade Institutional, he was the managing partner and CEO of FirstPoint Partners, a boutique consulting firm providing strategy and guidance to advisors considering transitioning to the independent advisor channel. Prior to FirstPoint, Scott spent 13 years at LPL Financial in a variety of recruiting roles, most recently as senior vice president of business development. Collins began his career as a financial advisor with Merrill Lynch.

Scott earned a Bachelor of Science degree in Psychology from Texas A&M University and holds Series 7, and 63 licenses.

TD Ameritrade

Institutional

Important Information

TD Ameritrade Institutional and all third parties listed are separate, unaffiliated companies and are not responsible for each other's services or policies.

This material is designed for an audience of financial professionals. Content is provided for informational purposes only and should not be construed as legal or professional advice. TD Ameritrade Institutional disclaims any loss or liability that is incurred as a consequence, directly or indirectly, from the use or application of this publication.

Advisors quoted throughout this material have not received remuneration for participation in providing these testimonials. Advisor testimonials may not represent the experience of all advisors using TD Ameritrade brokerage services. The advisors mentioned are not affiliated with TD Ameritrade Institutional. More information about the advisors is available on the SEC website (www.sec.gov).

Access to the TD Ameritrade Institutional RIAConnect™ program is provided by TD Ameritrade Institutional as a service to financial advisors using the brokerage, execution and custody services of TD Ameritrade Institutional. TD Ameritrade does not guarantee nor is it responsible for the completeness or accuracy of the data provided or for the quality of any product or service. TD Ameritrade makes no warranty or representation with respect to the service as to suitability or fitness for a particular purpose. In no instance should the listing of a third party be construed as a recommendation or endorsement by TD Ameritrade.

TD Ameritrade Institutional, Division of TD Ameritrade, Inc., member FINRA/SIPC. TD Ameritrade is a trademark jointly owned by TD Ameritrade IP Company, Inc. and The Toronto-Dominion Bank.

TDAI 9277 BR 09/15