

Major Considerations When Going Independent

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When you begin to think about going independent you will have many questions. Key among them will be how much of your assets under management (AUM) is likely to come over with you. We have heard from advisors that about 80% of their assets follow them to their new firm. However there are many issues to consider before you go independent.

The most important consideration before you make the move to independence is that you do not violate any agreements you have with your current firm. Problems here can result in legal action which can temporarily stop your ability to move your clients and their assets with you. This can prove costly and damaging to your business.

The second issue is understanding the definition of revenue at a full service broker-dealer (wirehouse) versus at a registered investment advisor (RIA). When you get down to it, it's the revenue (not the assets) that creates the basis for your profitability. The question that you should really ask is "how much of my revenue will transfer over with me?"

When wirehouse advisors look at their current revenue, they should understand that none of the trading commissions, margin interest or account fees will be part of their revenue going forward and realize that these credits could account for as much as 10% of their production. Commission based revenue such as 12b-1 trails, variable annuities, variable life insurance, etc. will only transfer if they are affiliating with a broker-dealer. You can get more information from your Pershing representative about broker-dealers who have dual registration and who offer this type of relationship. In addition, products such as mortgages and car loans are generally not part of the independent RIA revenue mix. It may be possible to arrange for a third party relationship to provide this type of lending, but because of its complexity, it may not be worth the effort.

Finally, the compatibility of your existing products may not be the same. Certain proprietary assets (proprietary funds, managers, etc.) may not transfer through an ACAT and therefore may be slow to follow. Product compatibility should be part of your custodian evaluation and is something else that should be discussed with your Pershing representative.

When it's all said and done, no one really owns the clients. Clients will follow the person they believe provides them with the best advice. If you feel confident in your client relationships and you are thoughtful and careful about how you go independent, you will generally see outstanding continuity in your practice client base.