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Nine Steps To Becoming A Successful Independent RIA

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As appealing as the path to a registered investment advisor (RIA) practice may be, it's a transition that requires careful consideration, detailed planning and a structured, strategic approach that leaves nothing to chance. By preparing well in advance, and seeking out expert guidance along the way, you'll be better able to avoid conflicts with your previous employer, retain your best clients and hit the ground running with minimal income gaps or execution issues.

While the RIA certification process itself may only take a few months, most industry professionals recommend you start preparing your transition six to 12 months ahead of time. Here are nine important considerations to keep in mind as you contemplate making your move.

1. Determine your business structure.

You'll want to consider how you'll structure your new business, as an S corporation, for example, or a limited liability corporation (LLC). You'll also need to consider where you'll domicile your business, either in your home state or in a state like Delaware, which offers certain legal advantages. These choices may have tax or regulatory implications, and it will be important to seek out qualified legal and tax advice before you finalize any decisions.

You'll need to do some research on specific RIA filing requirements. As a general rule, firms that manage less than $100 million in AUM only need register with their state authority, while those with higher AUM are required to file with the SEC. However, it is important to confirm the requirements for your particular state and situation.

2. Estimate income needs and potential expenses.

As part of your strategic planning, consider the financial aspects of having your own RIA practice. What kind of compensation will you need to meet your income needs, both short- and long-term? What kind of resources do you currently have to help you weather a downturn in your income as you build your business?

You'll also want to work out a rudimentary budget, estimating both short-term costs associated with starting your practice, as well as recurring monthly expenses. Once you have an idea of your income needs, expenses and prospective payout ratio, you'll have a better idea of what kind of AUM base you'll require to meet your income needs.

Start-up costs for transitioning RIAs may range from around $7,000 to $15,000, depending on the size of your client base, your choice of technology platform and other factors. The good news is that most of these expenses are one-time fees, and your overall expense ratios may decline as you grow your AUM and establish economies of scale. Moreover, because you'll have more control over your selection of vendors, RIAs have found their marketing, technology and compliance costs tend to be lower over the long term, as compared to the recurring fees they have historically paid out to their broker-dealer firm for the same services.

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3. Review your current employment agreements.

As you prepare for your transition, you'll also want to consider your current terms of employment, including any non-compete, client solicitation, or confidentiality agreements. The language of such agreements can be intimidating, though perhaps not as restrictive as it may appear on the surface. It's important that you obtain the expert, confidential opinion of an attorney well versed in securities law and the broker-dealer industry before you start approaching clients or planning your exit.

You'll also want to take into account any financial arrangements with your current employer, such as promissory agreements, outstanding loans from retirement accounts, or reimbursement arrangements for training or certifications. In most cases, you'll have to pay off any loans when you separate, and it will be important to keep these commitments in mind when considering the timing and financial implications of your transition.

Similarly, if you have any personal cash or investments held in-house at your firm, you may want to start migrating this money elsewhere. In a worst-case scenario, an advisor may find personal accounts frozen by an employer in the event of a non-solicitation dispute. If you start to move money around, you'll want to do so in a gradual, discrete manner so you don't raise red flags about your intentions.

4. Build your support network.

As an RIA, you'll be responsible for every aspect of your business, from marketing and account management to back-office prospecting, accounting and compliance. While it can be tempting to try to handle many of these functions yourself, your time is better spent meeting with clients and building your business. Consider what you can outsource, or how you might be able to leverage technology to handle some of these functions. Make a list of qualified professionals, such attorney or accountant, who you can consult for confidential advice as you start planning for independence.

5. Be discrete.

As you begin preparing your transition, it can be tempting to discuss your plans with potential clients and vendors, as well as friends and family members. The more people you talk to, however, the more likely it is that your current employer will be alerted to your plans before you're ready to resign. This can create legal problems, or land you without income or support before you're ready to make the leap. For this reason, you'll want to limit the people you tell, especially when it comes to colleagues in your current practice. Similarly, keep email communications related to your transition on a separate, private email server instead of using the broker-dealer's email server.

6. Prepare client materials up front.

As part of your preparation, you'll want to invest some time and resources in formulating your new logo and marketing materials, as well as printing your new stationary, business cards and client brochures detailing your investment approach. It's also a good idea to develop a press release announcing your new business that can be sent to the local media. As with other aspects of your business, this might be an area where you can outsource design, creative development and public relations to professionals with experience in the financial services industry.

7. Lay the groundwork with your clients.

Ideally, as you transition to the RIA channel, you'll be able to bring many of your best clients with you. In a survey by Cerulli Associates, advisors who transitioned to RIA sector were able on average to bring 91 percent of their targeted assets with them. Of course, your ability to migrate your book of business will depend on the loyalty and satisfaction of your client base, as well as the approach you take in laying the groundwork and talking to your clients about your plans.

Beginning about three to six months before your desired resignation date, try to schedule as many face-to-face client meetings as possible, focusing on your most valued, loyal clients. These meetings will provide you an opportunity to reiterate your commitment to your clients, and your interest in continuing to serve them in the future. During these meetings, make sure your clients have your personal contact information, letting them know you're always available if they have questions. That way, if you must leave your firm abruptly or you're constrained by non-solicitation terms, your clients still have a way to get in touch with you.

After you exit your former firm, and depending on the terms of your non-solicitation agreement, you'll want to personally contact each client. Set up face-to-face meetings, and be ready to explain how your decision to becoming an RIA will benefit them. At each meeting, present your client with a personal welcome letter and marketing materials for your new firm, and have the necessary paperwork on hand. Explain that you're eager to discuss some new strategies or products once they sign with you, and try to get their commitment during this first meeting.

8. Understand RIA compliance requirements.

Whether they register with state authorities or the SEC, most RIAs are required to establish a documented compliance program that is customized to the practice and services being offered. As part of these requirements, you will need to provide each client with a Form ADV Part 2A brochure that provides a clear discussion of your investment analysis approach, fee structure and credentials. From a legal standpoint, it's important that this document is carefully constructed and regularly reviewed by qualified counsel. Moreover, you'll need to make sure that all of your marketing and client communications materials, disclosure documents and investment and trading procedures are consistent with this document. You'll also need to be certain that every account you manage, regardless of size, receives a consistent investment process and detailed attention to required documentation. While some RIAs hire a dedicated compliance officer to handle these tasks, others have relied on outside consultants or strategic partners to handle this important part of their business.

9. Find the right technology platform.

Technology can provide important tools for managing your RIA practice, helping to improve efficiency and consistency for everything from back-office processing and record keeping to client communications, marketing and compliance. Technology also can help automate other aspects of your business, such as customizing investment strategies to each client, rebalancing portfolios for optimal asset allocation, assessing clients' risk profiles and providing documentation to explain these recommendations and procedures. The more you can leverage technology to handle the more rote aspects of your business, the more time you'll have to meet with clients and prospects.

There has been a proliferation in new technology alternatives to support the RIA industry, and sorting through your options can be complex and time consuming. For this reason, you'll want to formulate a clear vision of what you want your technology platform to do, and then start well in advance to research your various options. Once you narrow your choices to a few qualified vendors, be sure to ask about their degree of technical support, both through the integration period and afterward. You also may want to ask about a free pilot program, so you can see first-hand if this new technology is a good fit for your business.

While the transition to the RIA channel may be at times be stressful, it's not a journey you have to make alone. It can make all the difference to have a partner who can advise you on key business decisions, help you formulate a marketing strategy and technology strategy, and ensure you're meeting your legal and compliance requirements. The key is to pick a partner whose interests are aligned with your goals. You need a partner who knows you and understands your business. And you need a partner who is flexible and easily adapts to your specific needs.