

*charles*  
SCHWAB

# Going RIA and keeping your brokerage business

**Key considerations  
for the hybrid advisor**

*Own your tomorrow*

# The hybrid path to independence

Sooner or later, some advisors in the captive channel may start to bump up against constraints—around technology, product offerings, and future growth—that spur them to pursue independence as a Registered Investment Advisor (RIA).

While the greater freedom and control of an RIA practice can be compelling, giving up commission-based revenue from your successful brokerage business to create a fee-only advisory practice might feel like too great of a trade-off.

Fortunately, there's more than one way to go independent as an RIA. If you want the flexibility to keep your commission-based business while you also build an advisory practice, then a hybrid RIA model could be your ideal path forward.

## Consider this

Taking a thorough look at your business goals and needs can help you determine whether full independence as an RIA or a hybrid approach is better suited to the clients you serve and the business you want to build.

In the following pages, we'll explore four important questions you need to consider:

- 1 What is your business objective?
- 2 What is your investment philosophy?
- 3 What support will you need?
- 4 What are your economic and ownership goals?

## Hybrid models at a glance

	Semi-captive	Dually registered
Profile	Does not want (or is not ready to run) an advisory-only practice	Primarily conducts advisory business
Employment	Employee or independent contractor of an independent broker-dealer (IBD)	Starts or joins an RIA firm and is an independent contractor of the IBD
Registration	Is a registered representative of an IBD and an investment advisor representative (IAR) of the IBD's corporate RIA	Is a registered representative of an IBD and an IAR of the independent RIA



## 1 What is your business objective?

Start by determining your business objectives and when you may be ready to transition your business. If your goal is primarily to offer advice, the dually registered hybrid model is a path that many advisors take. Some advisors select this path to help transition their businesses over time to a fully fee-based model, while others use it as a long-term strategy because their offerings require access to certain products and services.

Either hybrid RIA model can be a good option if you prefer the flexibility of an RIA but also want to maintain your book of commission business. By running a dually registered hybrid model, you can access products that are available through a commission structure, such as an array of fixed income products, insurance, variable annuities, and alternative investments.



### Think about:

**Value proposition.** View the transition through your clients' eyes, and take their interests into account. Dual registration may allow you to provide expanded access to annuities and insurance, alternative investments, structured products, registered business development companies, and real estate investment trusts. It can also offer the flexibility you require to tailor your practice to the needs of specific investors as well as broaden your client base. In addition to expanded access to products, a dual

registration offers you options for how to charge for certain products—either an asset-based fee or a commission, as appropriate.

**Future growth.** Combining broker-dealer and RIA capabilities can open greater opportunities to grow your business through acquisitions or the recruitment of other dually registered advisors who prefer to join an established firm. Custodians like Schwab can help connect you with these RIAs and firms throughout the country.

## 2 What is your investment philosophy?

Understanding your current and future clients will help you recognize which advisory model will support your investment philosophy.

Does your investment philosophy require having access to commission-based products? In a hybrid practice, you can use your brokerage platform to provide broader access to alternative investments, structured products, and guaranteed-income products like annuities.



### Think about:

**Access to choice.** As a hybrid advisor, your broker-dealer is responsible for approving investment solutions, which could include those offered through your RIA. Some IBDs may have a wider selection of products than others. Under the semi-captive model, the IBD may require that you use their model portfolios and approved investments. Ask IBDs for a detailed overview of the products available and how new products are added, especially if product choice is essential for your business.

**Trade activity.** How often you actively trade or rebalance on behalf of clients should factor into the advisory model that you set up and the type of broker-dealer you work with. If your investment approach includes active rebalancing of client portfolios, it's important to consider IBD ticket charges, which may be higher and can potentially raise the cost of rebalancing.

## How compliance works in the hybrid model

Hybrid practices operate under a dual-compliance structure:

- As an RIA only, your firm is regulated primarily by either the U.S. Securities and Exchange Commission (SEC) or the securities regulatory authorities in your state.
- As a representative of an IBD, you are regulated primarily by FINRA. However, the SEC and state authorities also have regulatory jurisdiction over IBDs that also have an RIA.

As a semi-captive RIA, your IBD assumes direct management of all compliance functions, including RIA compliance. As a dually registered RIA, your RIA firm assumes responsibility for managing RIA compliance. The IBD still manages

compliance for its brokerage business and may have some oversight responsibility for the advisory business.

While the prospect of managing RIA compliance can seem daunting, it does not have to be burdensome. You can retain outside legal counsel or compliance consultants to assist with responsibilities and streamline the process.

**“Once independent, RIAs are often surprised that their fear of compliance was unsubstantiated.”**

—Brian Hamburger  
President and CEO, MarketCounsel

### 3 What support will you need?

As a hybrid advisor, you have the freedom to select a fee-based institutional custodian as well as a broker-dealer. Both semi-captive and dually registered advisors must affiliate with an IBD that facilitates a commission-based business. Having specialized support for your commission business and advisory practice may better equip you to focus on serving your clients. Your broker-dealer is responsible for providing support across sales, operations, and compliance. However, some IBDs specialize in working with hybrid advisors, while others are merely accommodating.



#### Think about:

**Systems and technology.** When starting your own hybrid practice, you'll need to make decisions that will impact your client experience. You may find that the dually registered model offers more control when selecting the systems and technology you use. On the other hand, you may appreciate the turnkey infrastructure solutions offered through your IBD under the semi-captive model.

**Role of your custodian.** As a dually registered RIA, you can choose the custodial platform through which to procure support services. Many custodians offer a selection of packaged tools and support to choose from and can also work with you to custom-build solutions for your RIA that are most appropriate for your clients. But keep in mind that not all custodians are created equal. Do your due diligence on the broader technology capabilities and philosophy of your prospective custodian.

**Cost control.** As an RIA, you have the freedom to choose the technology you want, from portfolio management systems to customer relationship management. You're not restricted to one-size-fits-all, one-price-

tag technology—even in the semi-captive model, where some IBDs now allow you to choose from a menu of services. With greater choice comes the ability to better manage costs.

**Service level.** The degree to which an IBD works with independent RIAs is often made visible in day-to-day processes, procedures, and response times. Be sure to do your homework and choose a broker-dealer with a strong track record of serving hybrid advisors. As a semi-captive advisor, you may need to rely on the IBD's internal staff to address service issues. Administrative layers like this can provide additional recourse when addressing problems, but may also slow the path to resolution. Do your due diligence, and ask the IBD about its problem-resolution process.

**Transition planning.** As you embark on your advisory business, an experienced custodian can guide you through the transition process. For example, Schwab Advisor Services™ has dedicated consultants who have helped many advisors transition to independence. They will help craft your transition plan and transfer client accounts.

## 4 What are your economic and ownership goals?



How highly you value building equity in your advisory practice can tell you a lot about which path—dually registered, semi-captive, or fully independent RIA—to follow. If equity ownership is most important, the best option may be the fully independent RIA or the dually registered hybrid model. If you don't want all of the responsibility of managing a business, going the semi-captive route may be more appropriate.



### Think about:

#### **Personal investment and ownership.**

A primary motivation for starting an RIA firm is the potential to build equity in your business. However, building equity in your firm typically requires greater time and effort. Ultimately, it comes down to whether you have an equity mind-set and want to monetize your practice in the future.

**Income mix.** As a fully independent RIA, you can charge fees based on assets under management. But you may also find benefit in preserving income streams from your legacy brokerage business as you build out your advisory business.

**Payout terms.** Hybrid advisors should take note of IBD payouts. Some pay more than others. In addition, some IBDs take an override on the fee-based business of hybrid RIAs. So, if you choose to be a dually registered hybrid advisor, look for an IBD that lets you maintain 100% of your advisory revenue.

## Finding your path to independence

As you can see, independence can take on many variations and accommodate practices of any size. With a hybrid practice, you can have access to both brokerage and advisory services if retaining your commission business is part of your strategy.

At the end of the day, choosing the model that's right for you will come down to the four key considerations outlined in this paper.

While there are many advantages of the hybrid model, it can represent a dramatic change to the way you do business. Knowing the right questions to ask about your business objective, your investment philosophy, the support you'll need, and your economic goals will help steer you toward the most appropriate model for you and your clients.

Learn more about the hybrid RIA model and whether it's right for you by contacting a Schwab Business Development Officer at **877-687-4085**.



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