

# Wealth adviser: Going independent sounds good but who has time?

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By [Philipp Gollner](#)

SAN FRANCISCO (Reuters) - Independent brokers are increasingly eager to become registered investment advisers but are impeded by compliance concerns and time constraints, according to a new survey from Charles Schwab Corp.

Almost 86 percent of 157 brokers polled at independent broker dealers and insurance firms deemed the RIA route an attractive business model that reduces perceived conflicts of interest and opens income-increasing opportunities.

Twelve percent found no appeal at all in becoming an RIA.

The survey, conducted in January among brokers with an average age of 44 and 2009 income of \$235,000, was the first aimed by Schwab at independent brokers, a channel increasingly ripe for conversion to RIA status. The number of transplanted independent brokers moving to Schwab's RIA platform increased by 45 percent in 2010 over 2009.

RIAs, which can range from one-person financial planning firms to major money management companies, generally charge fees based on a client's assets under management while brokers are more likely to sell financial products on a commission basis. RIAs also are subject to a fiduciary standard of care that requires them to put a client's interest first. Brokers have to ensure only that a product is suitable for a client.

In the days leading to the financial collapse of 2008, firms such as Schwab that offer trading, advisory and business services to RIAs anticipated a big migration to the RIA model. But once the tumult began, many brokers feared making such an abrupt change, and others have been locked in by offers of deferred compensation from big wirehouse firms such as Merrill Lynch and Morgan Stanley.

Schwab, Fidelity Investments and other RIA custodians are now putting a greater focus on brokers who have already moved toward independence by affiliating with firms such as LPL Investment Holdings and the independent contractor unit of Raymond James Financial. Their dalliance with independence makes them more disposed to a pure RIA model while new technology makes it easier for them to convert their businesses, according to consultants.

"Even prior to the financial crisis that began in 2008, a shift toward independence had begun and the dominance of the wirehouse was waning," according to a 2009 report from TowerGroup, a consulting firm in Needham, Massachusetts. "Since the advent of the Internet and the increasing power of personal computers, independent advisers have been able to virtually replicate the technological capabilities of a wirehouse at a reasonable price."

Some consultants, however, are skeptical of the bullish attitudes captured in Schwab's survey.

Asking brokers whether they want to become independent and keep all their revenue is akin to asking people if they want to buy a new car, said John Furey, whose Advisor Growth Strategies LLC in Phoenix offers consulting services to independent advisers. Most say yes, but few actually go through with it.

"Making a move from one firm to another is tough enough, but making a channel move is even more challenging," said Furey, who formerly worked in Schwab's RIA conversion unit.

Also inhibiting such moves are fear of giving up a paycheck and concerns about being able to run their own business.

"What the adviser has to be aware of are the operational and administrative aspects," said Elizabeth Nesvold of Silver Lane Advisors LLC, a New York-based investment banking boutique that specializes in the wealth management sector. "They can get buried under things that are foreign to them" and drift "from the craft they love, which is sourcing and advising clients."

San Francisco-based Schwab is the biggest RIA custodian, offering transitional and operational services to more than 6,000 clients. Its RIAs kept \$655 billion with Schwab Advisor Services at the end of 2010, up 11 percent from a year earlier.

Fidelity Investments, Schwab's principal competitor, has also been waving the flag for the RIA model.

Brokers at full-service firm or independent contracting shops are fueled by the drive for "freedom, the ability to build their own brand...and to deliver unbiased advice," said Michael Durbin, president of Fidelity Institutional Wealth Services.

Custodians acknowledge that some of the recent drive to independence was forced not so much by choice but by broker-dealers squeezing out lower-producing brokers.

The RIA model, however, is beginning to draw interest from a new breed of so-called "hybrid" brokers at a time when the Securities and Exchange Commission is expected to better harmonize the standards of care that brokers and RIAs must give clients.

Forty-six percent of respondents in Schwab's independent broker survey said they would continue collecting commissions for selected products while focusing primarily on fee-based compensation as RIAs.

The biggest impediments to shifting are obtaining legal and compliance advice and finding the time to plan and execute the switch, according to the survey. Other obstacles cited include the lack of marketing and sales support, the need to hire and retain quality partners, the challenge of finding functional and affordable technology and concerns about attracting and retaining clients.

(Reporting by Philipp Gollner, editing by Jed Horowitz)