charles SCHWAB

Advisor Services

Exploring independence

An overview of the Registered Investment Advisor model

Own your tomorrow®

"The most rewarding aspect of being independent is knowing that we own our business. We are our brand."

—Stephen Korving
President, Korving & Company

Freedom leads to options and opportunity

Investment advisors today have an unprecedented number of options. Sophisticated technology and increased access to financial products make it easier than ever to explore independence. Advisors can now look beyond traditional wirehouses and independent broker-dealer (IBD) options, thanks to an expanded array of Registered Investment Advisor (RIA) business models.

Options for clients have grown as well, and online financial management has become mainstream. Delivering genuine, unbiased investment advice is more important than ever. This is where independent investment advisors excel. Clients recognize this and are moving their assets accordingly.

More and more investment advisors are seizing the opportunity to create the future they imagine for themselves and their clients. Independence offers unparalleled freedom and control. As an independent investment advisor, you have the potential to keep up to 100% of your revenue. You determine the shape of your business. You serve clients the way you know is best.

In the following pages, we take a close look at:

- RIA channel growth
- Benefits of independence
- Differences between RIA models
- Economics of RIA firms
- The custodian's role

We also discuss time-tested steps for making your transformation.

Why more investment advisors are choosing the RIA model

The RIA channel has been growing steadily for the past several years. As support services continue to expand and analysts are bullish on the channel's future, investment advisors feel more confident in their options.

Industry research shows that the RIA channel has grown, even as the wirehouse and IBD channels have faced declines since 2008. The number of investment advisors at wirehouses and IBDs shrank by 5.9% and 10.1%, respectively, from 2015 to 2020.[1]

Conversely, the RIA channel has shown sustained growth, adding nearly 10,000 investment advisors (including dually registered) from 2015 to 2020.[2] Over one-quarter (25.8%) of assets are now managed by RIA firms, up from 19.6% in 2010.[3] The growth in the RIA channel is pronounced, with its average compound annual growth rate increasing 13.3% from 2015 to 2020 (which includes hybrid RIAs).[4]

Many investment advisors are upbeat about the channel's future. In a Schwab survey of investment advisors at major financial firms, over half of respondents (57%) prefer the RIA model over other models. Indeed, many investment advisors (47%) believe the RIA industry has not fully matured and will continue to grow at a higher rate than the market.[5]

Why are investment advisors flocking to the RIA model?

They're entrepreneurs.

Many investment advisors have an enterprising mindset. They're self-starters, organizers, and motivators who are invigorated rather than intimidated by challenges. To many entrepreneurs, starting their own firms is a lifestyle choice as much as a business decision.

They're dissatisfied with the culture of wirehouse firms.

Although most investment advisors say they put clients first, many in the wirehouse channel feel they are ultimately working for their firms as much as for their clients. Investment advisors bristle at this lack of autonomy, in addition to the fees and "haircuts" that wirehouses sometimes impose on their earnings.

They want to build their own brands.

Investors may trust their investment advisors absolutely but not necessarily value the firms where they work. Going independent can help investment advisors strengthen their client relationships. Investment advisors at RIA firms can build their brands from scratch, matching them to client priorities and investment advisor goals.

They want access to best-of-breed technology and support.

Some wirehouse and IBD investment advisors are limited by their options for technology, compliance, and management support—and sometimes report paying for services they don't want or need. More and more, these investment advisors are turning to the RIA channel to find the freedom to choose the platform and services that best fit their firms' unique needs.

Do you crave more freedom and flexibility? Do you want to be your own boss and call the shots? You may be ready to join the RIA movement.

"I became an independent investment advisor because this is the future."

—Amit Stavinsky
CEO, Managing Director,
and Lead Advisor,
Tamar Securities

6.1% CAGR

More investment advisors in the RIA channel, including hybrid RIAs, from 2019 to 2020[6]

Compound annual growth rate (CAGR)

13.3% CAGR

Increase in RIA channel assets, including those of hybrid RIAs, from 2015 to 2020[7]

Wirehouse and IBD channels have shrunk annually by

1.2% CAGR

and

3.1% CAGR

respectively, since 2010[8]

At RIAs, assets under management have grown

153%

at the median from 2016 through 2021[9]

The fiduciary standard

Independent investment advisors serve as fiduciaries for their clients. They provide personalized financial advice and services.

Many investment advisors at RIA firms work with complex portfolios and address unique needs that require a highly customized level of investment management strategy and consultation. Under the fiduciary standard, firms are required by law to act in the best interests of their clients.

RIA firms are registered with the Securities and Exchange Commission (SEC) or state securities regulators and are held to the fiduciary standard by the Investment Advisers Act of 1940 as well as similar state laws. According to the SEC, as a fiduciary, "an adviser must eliminate or at least expose" all conflicts of interest and "provide investment advice that is in the best interest of the client."[10] Investment advisors are required to file annual Form ADVs describing their firms' business practices and client communications. Registration with the SEC or a state regulator does not mean the information in an RIA's ADV has been verified or approved.

Why it matters

Adhering to the fiduciary standard has long been a mainstay for independent investment advisors, an especially important factor in an environment where investors are increasingly wary about to whom they entrust their assets. When clients know you are legally required to act in their best interests, it can help you build trust and forge stronger relationships.

Independent investment advisors and other financial services professionals receive compensation for services in a variety of ways. It is the responsibility of each investor to determine which method of compensation offers the lowest total costs and best aligns the interests and needs of the investor with those of the investment professional chosen.

Choosing independence is good for business

Investment advisors cite numerous benefits to adopting the RIA model, including greater autonomy and the potential for a larger income. However, much of it boils down to a single concept: control.

A Schwab study asked investment advisors at firms of all sizes why they found the RIA model appealing. Although the responses varied, they all shared a common theme: Investment advisors want the ability to shape their businesses and serve clients as they see fit.[11]

Client experience

While most investment advisors put a high priority on client relationships, the RIA model helps them deliver on that promise. Investment advisors at RIA firms can decide how to engage and communicate with clients—from building a marketing plan to creating a customized product portfolio for each client.

By contrast, some investment advisors are confined to their firm's business model, which often includes a limited number of products or services or prepackaged communications strategies. In addition, the net compensation of some investment advisors is tied to the products they sell. Independent investment advisors are under no such restrictions. However, investment advisors at RIA firms are subject to the responsibilities of being a business owner, which may include strategy, management, compliance, and financial performance. Schwab's support, services, and technology solutions can help you navigate those responsibilities.

Autonomy

Independent investment advisors have the final word on all decisions related to the business. You decide everything from the compensation structure to the technology platform to the sign on the office door.

Income potential

As an investment advisor at an RIA firm, you determine how much of the revenue you keep—up to 100%, depending on the model of independence you choose (see page 11). You can assert complete control over fees and expenses, choosing only the products and services you need. When you're the owner, you can also build equity as your firm grows, leading to a higher long-term payout should you choose to sell the business down the road.

Independence in the RIA channel may be attractive for several more reasons, including:

Access to the right tools

Independent investment advisors can choose the technology and platform that best suit their specific needs. The latest portfolio management and customer relationship management (CRM) systems make it easier to streamline your workflows, access crucial information, and serve clients—all while adapting to your key priorities.

Opportunity to keep commission-based business

Independent investment advisors with successful brokerage businesses don't have to choose one model over another. By affiliating with a third-party IBD, you can offer advisory services through your RIA firm while keeping your commission-based business.

Compliance options

Investment advisors at RIA firms have more options when it comes to managing compliance. You can conduct compliance in-house or turn to a third party for help, freeing up more time for clients.

“It’s really about the freedom to make decisions—not only for the business but for your clients.”

—Colin Higgins
CEO, Summitry

Benefits of independence

Investment advisors who recently started or joined an RIA firm cited these major factors for becoming an independent advisor:[12]

1. Greater autonomy
2. Higher payout
3. Ability to build financial value in an independent business
4. More control of investment decisions and portfolio construction
5. A more personable culture

Putting clients first

For investment advisors, acting in their clients' best interests is a key principle. Investment advisors at independent RIA firms have the freedom to put clients and their goals above all else.

Karen McCloskey, principal and founder of CMH Wealth Management in North Hampton, New Hampshire, appreciates the difference. Formerly a bank employee, she now owns an RIA firm. "Our independence benefits clients every day because I can act on their needs, their instructions, and what's going on in the world around us," she says. "I can make that adjustment without having to go and get layers of approval."

According to a Schwab survey, 94% of independent investment advisors said the freedom to do what is best for their clients is the most important reason to go independent.[13] In fact, on average, 87% of clients make the jump with investment advisors when they turn independent.[14]

Study results show that investors are continuing to choose the RIA model. In Schwab's 2022 RIA Benchmarking Study, assets under management (AUM) grew at an annualized rate of 14.1% from 2017 through 2021 at the median. Advisors saw strong client growth as well with a median annualized growth rate of 5.1% over that same period.[15] The RIA model tends to create a special kind of investment advisor-client relationship because:

- It offers transparency. As an independent advisor, you can be forthcoming with your fees, giving clients a clear picture of what they're paying.
- You can provide unfiltered advice. You're under no obligation to sell proprietary products, and you can choose the solutions you think are best for your clients.
- You're free to choose only the investments that help fulfill clients' goals.

"Advice is the most important thing you offer to your clients."

—Leo Arms
President, Thomas Leo Advisory

"Advice is the most important thing you offer to your clients," says Leo Arms, who owns Thomas Leo Advisory, an RIA firm in Minneapolis. "They can get the transaction at many different places."

The role of an independent investment advisor, he says, is to listen to what clients need, help them, offer advice, and "ultimately be compensated for the advice you offer."

Understanding the differences between RIA models

The landscape is rapidly changing, and investment advisors have more options for levels of independence than ever before. But before making a choice, investment advisors should decide exactly who they want to be.

Most independence ← → Least independence

1 Create your own independent RIA firm	2 Outsource certain RIA firm operations	3 Share ownership with an equity partner	4 Affiliate with an existing RIA firm	5 Join an independent RIA firm as an employee
Select products, services, and technology to best serve your clients. Build equity and choose how you grow. This is your vision realized.	From cybersecurity to compliance, RIAs can access time-saving support. You can get support on aspects of operations and still maintain full ownership.	Equity partners help with all aspects of running your firm. They also take on a portion of the risk and share in your rewards.	Manage your book of business while operating under the umbrella of an established brand. Serve clients your way, and let the firm handle back-office operations.	Joining an existing RIA firm as an employee allows you to take advantage of the support of an established brand and infrastructure.

There's no right or wrong way to go independent in the RIA channel. Different models appeal to different personalities and aspirations.

Some investment advisors envision themselves in the driver's seat and relish the idea of building a firm from the ground up. Others want to control their revenue and set their own hours but aren't crazy about negotiating contracts with multiple vendors for office and technology support. And some just want more flexibility in their client relationships but don't want to run a business.

Fortunately, the RIA channel has matured dramatically in recent years as thousands of investment advisors have successfully chosen the well-worn path to independence. The transition no longer requires a leap of faith. No matter what option you choose, you can leverage available resources and support to help with the transition.

You have five models to choose from.

Finding the right fit

1 Create your own independent RIA firm

"I want the freedom to run the business my way."

What is it?

You open a firm and maintain full control of the business.

Priorities

- Full ownership
- Maximum control and responsibility
- 100% of revenue and any earned equity

Structure

You're the true business owner. You decide which vendors and products best fit the business and make all the necessary arrangements. This includes everything from hiring the cleaning service to establishing a brand identity and company culture. You are responsible for all expenses.

Custodians like Schwab often offer consulting support, introducing advisors to third-party vendors to help with office setup, compliance, technology, and more.

Main benefits

As an RIA owner with full control, you can run the business however you want. You can keep 100% of the revenue, retain 100% of the equity the firm builds through the years, or choose to take distributions as you see fit.

Other considerations

This model can also work well for multiple investment advisors entering into a formal partnership, provided they have complementary strengths.

2 Outsource certain RIA firm operations

"I want to be the boss, but I don't want to deal with all the details."

What is it?

You open a firm but use the services of a platform provider for help.

Priorities

- Full ownership
- More time to focus on the areas of business you care about most
- 100% of the equity as your firm grows

Structure

You still make most of the decisions, but you hire a platform provider for à la carte services. These services may relate to compliance, technology, reporting, financing, or office setup, depending on the arrangement. The platform provider contracts with all the vendors but provides some flexibility in vendor choice. You pay a platform fee for the services and are responsible for all expenses.

Custodians like Schwab often offer consulting support, introducing advisors to third-party vendors to help with office setup, compliance, technology, and more.

Main benefits

You have full control over the business but with fewer decision-making hassles. Notably, the platform provider doesn't take any ownership stake, so you still receive 100% of the equity as the firm grows.

Other considerations

It's relatively simple to transition from this model to full independence should you want more control.

3 Share ownership with an equity partner

"I'm willing to trade some control for financial support up front."

What is it?

You open a firm with the help of a financial partner who invests in the business.

Priorities

- Upfront payout
- Easy transition with the holding company handling most of the setup
- Ability to focus on clients

Structure

You sell a portion of your revenue stream at a multiple to a holding company, which buys a majority or a minority stake in the firm. This, in effect, monetizes part of your book. You can take the payout in cash, in partial equity, or in some combination of the two. The financial arrangement is similar to a wirehouse relationship but typically offers you a better upside.

Main benefits

You receive cash up front, along with the potential for additional payouts as your business grows—typically in years three and six. The transition is also relatively easy, as the holding company handles most of the setup work. This gives you more time to help clients achieve their goals.

Other considerations

This is a popular model among investment advisors who are nearing the end of their careers and want to cash out and enjoy their retirement and for investment advisors who want a lump sum to help pay off a loan. It's also a good option for succession planning, as it allows a firm to cash out an experienced partner while ceding the business to younger partners.

4 Affiliate with an existing RIA firm

"I want to be independent but not necessarily self-employed."

What is it?

You open a new office for an established firm and operate under that firm's supervision.

Priorities

- Freedom to focus on clients and business development
- Infrastructure support
- Greater flexibility in communications and product choice than at a traditional wirehouse or broker-dealer

Structure

As with the financial partner model, you enter into a financial deal and structure similar to a wirehouse's. You join an established brand and gain access to the firm's built-in infrastructure, which may include technology, compliance, and more. One crucial difference, however, is the ownership structure, as investment advisors in this model often acquire an equity stake in the parent company.

Main benefits

You have more flexibility in client communications and product choice than you would at a wirehouse. You also have the potential to earn more, depending on the terms of the deal. And because someone else handles the operational details, you can devote most of your attention to your clients.

Other considerations

The firm's existing infrastructure and support make the transition from a wirehouse relatively easy. Succession planning is also simple compared with some other models because the parameters are already defined.

5 Joining an independent RIA firm as an employee

"I want to take smaller steps to independence."

What is it?

You join an existing RIA firm as an employee, potential partner, or independent contractor.

Priorities

- Low-risk transition without the challenge of building your own infrastructure
- Established brand
- More time to focus on clients

Structure

The structure can vary widely, depending on the existing firm. Some firms are content to split some expenses, take a percentage of your revenue, and let you work independently. Others are looking for a complementary fit, perhaps targeting investment advisors who run different investment models or who blend in with the firm's culture. Financial terms are negotiated up front.

Main benefits

You can negotiate the best possible terms for your situation. That could mean an upfront payout, a partnership with long-term equity, or some combination of the two. You don't have to deal with the challenges of building your own infrastructure, and you're free to interact with clients as a fully independent investment advisor, provided your strategy matches the firm's.

Other considerations

In many ways, this model provides the softest landing, as you're piggybacking on an existing firm's success. Most investment advisors report a smooth transition, with minimal disruption to their practices. Culture is key, however. You should do your research and find a firm with similar values and aspirations.

Can I keep my commission-based business?

Many investment advisors who receive revenue from commission-based business don't want to give it up when going independent. To keep a foot in both worlds, you may choose one of two hybrid models.

- **Dually registered investment advisor:** You start or join a fee-based RIA firm while affiliating with an IBD for transaction business. You may have more flexibility in choosing advisory services and investment options and may leverage IBD turnkey infrastructure or assemble a customized platform.
- **Semi-captive:** You affiliate with a broker-dealer that has a corporate RIA and restrictions on RIA custodian access. The IBD chooses the custodian, manages and sometimes restricts investment options, and provides turnkey infrastructure and support.

The hybrid model is increasingly popular. In fact, no other channel in the industry is growing faster: The number of hybrid RIAs grew 5.7% year over year during the last 10 years.[16]

Choosing a hybrid model has implications for all aspects of your business.

Key considerations include:

- How important is offering diverse brokerage and advisory products?
- What are your long-term and short-term revenue goals?
- Do you want the freedom to choose business partners and vendors?
- What is your growth strategy?
- Is equity ownership a long-term financial and business objective?

RIA firms enjoy increased earning potential

The benefits of independence are an easy sell to many investment advisors, but a crucial question remains: How do the economics work? At Schwab, we use our experience with investment advisors to run the numbers and show how an independent investment advisor's potential revenue compares with that in the wirehouse and IBD models.

In analyzing the revenue potential of the RIA model, most analysts return to the same rough numbers time and again: 40, 85, and 100. These refer to the average percentage of client fees that investment advisors typically earn in each channel: 40% in a wirehouse, 85% in an IBD, and 100% in an RIA.[17]

It's important to note, however, that these percentages do not account for expenses but instead refer to the percentage of revenue under an investment advisor's control.

Wirehouse investment advisors earn a flat rate, with the remainder of the revenue belonging to the firm. The firm then divides its share between expenses and shareholder profit. From the investment advisor's perspective, expenses are fixed. On the plus side, this means wirehouse investment advisors don't need to worry about paying monthly invoices or negotiating with vendors. On the downside, these advisors often end up paying for products and services they don't use.

Investment advisors working in the IBD channel generally control up to 85% of their revenue (roughly 15% goes to broker-dealer fees). In practice, however, they pay roughly 30% of that revenue in expenses, leaving them with 55% of the revenue—still an improvement over what they could earn at a wirehouse.

Fully independent investment advisors are in the best position to maximize their revenue. With no wirehouse or broker fees, they control 100% of their revenue. Assuming they dedicate 30% of that revenue toward expenses, that leaves them with a net compensation of 70%.

Hybrid investment advisors using an RIA as a custodian also tend to earn a higher payout percentage than IBDs, as they may pay broker-dealer fees only on their commission-based business. In contrast, IBDs traditionally pay broker-dealer fees on all their assets. Hybrid investment advisors using an RIA as a custodian typically fall between the IBD and RIA on the chart below.

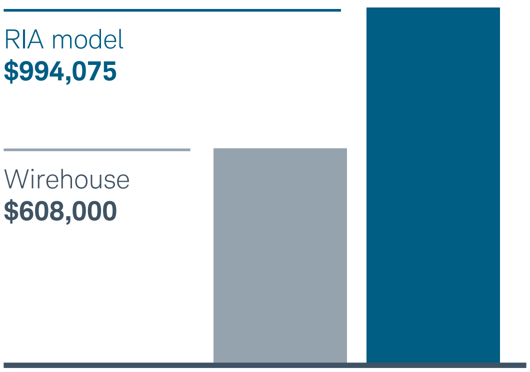
Investment advisor earning potential

Using $1 million in revenue as an example

	Wirehouse	IBD	RIA
Revenue	**$1,000,000**	**$1,000,000**	**$1,000,000**
Fees/expenses			
House	($600,000)	—	—
Broker-dealer fee	—	($150,000)	—
Expenses	—	($300,000)	($300,000)
Payout or profit	$400,000	$550,000	**$700,000**

Source: Schwab estimates. Hypothetical and for illustrative purposes only. Past performance is not an indicator of future results. Projections based on the RIA Economic Discovery Tool. Payout ranges: *The Cerulli Report, U.S. Advisor Metrics 2020*. Examples provided represent average results and are for informational purposes only. This is not intended to be reflective of results you can expect to see.

Potential first-year profit and income



Investment advisors who switch to the RIA channel can potentially earn substantially higher net incomes compared with their current environment.

Source: Schwab RIA Economic Discovery Tool. Assumptions: $200 million in AUM, 2 owners/2 employees, 100% fee-based, 40% payout. Hypothetical example.

If an RIA firm is well managed, investment advisors can often increase their payout by a few percentage points. According to Schwab's 2022 RIA Benchmarking Study, firms with the most disciplined expense controls reported a total overhead margin of 23.8%, leaving 76.2% to pay professional staff or themselves, or to reinvest in the firm.*

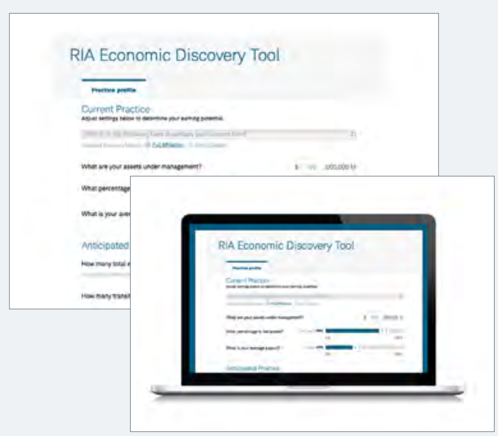
Schwab Advisor Services™ offers business and technology consulting to help independent investment advisors optimize, protect, and grow their firms. Likewise, Schwab offers a range of networking, education, and leadership programs to help RIA firms develop their employees' skills.

Schwab's annual RIA Benchmarking Study is a good example of the support available for independent investment advisors. It captures trends and best practices in the RIA industry based on data from participating firms. Each investment advisor who participates in the study receives a customized report that offers key insights about their firm's performance and evaluates how their firm stacks up against their peers. Investment advisors can use this study to assess where they are, where they want to go, and how they can get there.

Schwab RIA Economic Discovery Tool

You can use the RIA Economic Discovery Tool to evaluate how you would fare by going independent. Simply enter your specific data points into the tool. Using insights from Schwab's RIA Benchmarking studies and the experiences of nearly 15,000 firms, the tool charts your potential income, profit, and business equity.

Enter data about your business and receive a customized report. To learn more about the tool, see **advisorservices.schwab.com/econ-tools**.



*Total overhead margin reflects the twentieth percentile result for all firms with $25 million or more in AUM. 2022 RIA Benchmarking Study from Charles Schwab, fielded January to March 2022. Study contains self-reported data from 1,218 firms and was not independently verified. Past performance is not an indicator of future results.

Putting the numbers into context

What do the percentages mean in practice?

Using the RIA Economic Discovery Tool, Schwab evaluated the potential increase in profits for a hypothetical wirehouse advisor transitioning to full independence as an RIA.

The example on page 16 assumes the investment advisor is transferring $200 million in AUM and is earning an income of roughly $608,000 at the wirehouse. After accounting for expenses—compliance, technology, and marketing—and transition costs, the analysis concluded that an investment advisor at an RIA firm could potentially earn more than $994,074 in the first year on the same AUM.

Business equity and succession planning

In addition to potentially earning higher incomes, owners of RIA firms also maintain another financial advantage over wirehouse investment advisors: equity. The RIA model allows owners to lay the foundation for a potentially lucrative exit strategy.

As an RIA owner, you have plenty of options for succession planning. You can sell your business, merge with another firm, or recruit an external or internal successor. In each case, you can choose the outcome and financial terms that best match your goals.

There are several methods for valuing firms, but in general, multiples are higher in the RIA model than in the wirehouse and IBD channels. IBD firms are usually valued between the wirehouse and RIA models because of their mix of fee-based and commission-based assets.

Combine the potential income an investment advisor earns in each channel with the business equity, and the financial disparity between models is even greater.

It's also important to note that in the wirehouse model, you don't get to choose who receives your book of business upon retirement. While the IBD model offers more control, the RIA model gives you full autonomy to decide the legacy of your firm.

"Part of the reason you go independent is to grow. Before, as much as you grew, the house took 60% of that growth. Now, once you have your expenses covered, it's nice to see how every new dollar of revenue can impact your cash flow and also the value of your firm."

—Brian Power
Principal and Wealth Management Advisor, Gateway Advisory LLC

Learning to manage expenses

As an RIA firm owner, you are in full control of expenses. You decide how much to spend on things like technology, compliance, insurance, marketing, and office setup. Unlike wirehouses and, to some degree, IBDs, RIAs never have to pay for services they don't use.

But keeping a tight leash on expenses isn't always easy. That's why Schwab offers guidance based on the experience of collaborating with nearly 15,000 RIA firms to help them manage costs, create capacity, and sharpen productivity.

Understanding startup costs

Once you decide to go independent, more practical matters loom: How much will it cost, and how will you manage this?

Schwab helps you get answers with tools to help forecast and track costs during startup and the years that follow. Schwab's integrated team of professionals helps investment advisors evaluate the economics of their business, build a strategic plan for success, and connect with key third-party vendors along the way.

Here are a few questions that will help you determine startup costs:

- Am I starting a firm or joining an existing RIA?
- What's my current and future staffing mix? How much will my employees be paid?
- How much space does my firm need?
- What other infrastructure is required to open the doors?
- Am I keeping my commission business? If so, who will be my broker-dealer?
- How will I handle trading and technology?

To provide a sense of likely startup costs, the hypotheticals below reflect conversations with investment advisors who recently made the switch.

Keep in mind that costs can vary widely based on the size of the team, the complexity of the offer, and which services you choose to outsource. Many of these decisions involve trade-offs. For example, choosing to keep most services in-house reduces upfront costs but takes up valuable staff time.

Projected startup costs for transitioning from a wirehouse

\$15,000–\$35,000	\$35,000–\$100,000	\$100,000+
Size: <\$100 million in AUM	**Size:** <\$250 million in AUM	**Size:** Larger, more complex firms
Ownership: Single owner and no staff	**Ownership:** One owner and one or two staff members	**Ownership:** Multiple owners and staff members
Major considerations: ▪ Technology sophistication ▪ Level of upfront legal support ▪ Initial branding impact ▪ Choice of office space (home office, corporate office suite, standalone office lease)	**Major considerations:** ▪ Technology and benefits outsourcing ▪ Initial branding impact ▪ Choice of office space (corporate office suite versus standalone office lease)	**Major considerations:** ▪ Technology and benefits outsourcing ▪ Initial branding impact ▪ Website sophistication ▪ Extent of office buildout and furnishing ▪ Buy versus lease decisions on equipment

Note: Investment advisors transitioning from the IBD channel already have most of their infrastructure in place. Their expenses are typically limited to technology, rebranding, and legal assistance. Assuming average legal support, transition costs range from \$15,000 to \$30,000, based on the level of technology and branding sophistication the investment advisor elects.

Source: Schwab RIA Economic Discovery Tool.

Consider long-term value when evaluating your options

Assume that the hypothetical firm with two investment advisors pays off a combined outstanding forgivable loan with a balance of $1.6 million. Based on the incremental income you can generate in a move to the RIA model, you can break even in a little over three years.

The chart here also illustrates your potential cumulative income in the RIA scenario, showing significant growth year over year. Not shown is the increase in your enterprise value as you continue to build equity in the growing firm.

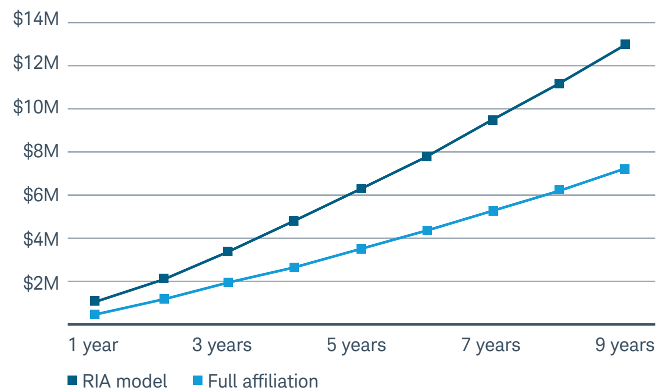
Source: Schwab RIA Economic Discovery Tool. Assumptions: $200 million in AUM, 2 owners/2 employees, 100% fee-based. Hypothetical example. The results generated by the RIA Economic Discovery Tool are limited as set forth in the Terms, Conditions, and Assumptions. The scenarios and alternatives covered are not exhaustive and may not be representative of those you actually encounter. Moreover, the simulated pro forma results are materially dependent on various assumptions and inputs, some of which are made and specified by you and some of which are static.

In a Schwab survey, 71% of independent advisors said that an opportunity to earn a larger annual income was an important factor for going independent.

71%

Source: Independent Advisor Sophomore Study from Schwab Advisor Services, Logica Research (formerly Koski Research), March 2018.

Cumulative income



The custodian supports the RIA*

RIA custodians do much more than simply hold client assets. They can also provide a range of investment and banking products, business management, technology, and service support to RIA firms.

Custodians can offer a wide range of financial products, technology options, educational resources, and business consultants. A custodian can help you explore third-party providers and solutions. Many custodians have large networks and enterprise partnerships with leading providers.

Third-party consultants work closely with you to address your unique business needs, assist you while you develop a customized transition plan, and ensure a smooth client account setup and transfer process. At the same time, custodians also provide thought leadership and industry insights.

Moreover, custodians play an integral role in helping you deliver your ideal client experience.

Given the importance of the relationship, you should thoroughly evaluate your options before choosing a custodian—keeping in mind that you can freely move from one custodian to another and choose only the services you want.

*Investment advisors should consult with their compliance, legal, and tax partners before making a decision. Schwab does not provide investment planning, legal, regulatory, tax, or compliance advice.

Schwab Advisor Services

Schwab helped pioneer the RIA industry when we launched our custody services more than 30 years ago, and we have led the evolution of the model ever since. With more than $3 trillion in client assets, Schwab Advisor Services™ and TD Ameritrade are the market leaders in RIA custodianship.[18] In fact, more independent investment advisors work with and entrust more assets to Schwab than to any other custodian in the industry. Schwab offers a full menu of services for RIA firms as part of our longtime commitment to—and vision for—independent investment advisors and the future of the RIA channel.

While launching a new RIA firm can be exciting, it can also be intimidating, especially for investment advisors who have no experience running their own businesses. Schwab helps smooth the transition process with integrated teams of professionals specializing in key business issues.

Business consulting

Investment advisors working with Schwab gain insights from more than 190 years of collective experience, more than 500 unique consulting engagements each year, and data from nearly 15,000 RIA firms. Schwab consultants help analyze the economics of transition and design your ideal firm and client experience. Consultants work with you to create a strategic business plan and engage third-party providers. Then they collaborate with you to create and implement a client communication plan that carries through launch.

Consulting starts well before you become a client of Schwab and continues as you grow.

Our Transition Consultants can also arrange detailed training and resources, which can be customized and include topics such as client and employee compensation, strategic planning, and creating a referral culture.

Technology consulting

Technology plays a pivotal role in your firm's success. That's why Schwab's experienced professionals help you assess the technologies and digital workflows required to support your ideal client experience. They'll guide you through exploring and evaluating third-party providers and solutions. Then they'll help you outline the digital strategy and step-by-step plan to bring your vision to life.

Compliance resources

Schwab connects investment advisors to third-party resources for compliance support, including consulting, insurance, recordkeeping, and software.

RIA Benchmarking Study

This powerful tool gives RIA firms access to key business metrics, best practices, and insights from their colleagues in the RIA industry. It helps investment advisors evaluate their firm's strengths and opportunities. Each participating firm receives a comprehensive analysis of the firm's performance relative to its peers, along with insights into strategy, business development, and financial performance.

"The difference between being the client of a custodian and being an employee at a large national firm is like night and day. If you work for a firm with 10,000 advisors, you can feel like the company doesn't pay attention to you and what you need. But when you're a client, they're in business to serve you."

—M.J. Nodilo, AIF®
Regional Director and Partner, EP Wealth Advisors

“There are people out there who will listen and understand your needs. You don’t have to go it alone and search for the best options without guidance.”

—David Bromelkamp
President and CEO,
Allodium Investment Consultants

Choosing the right technology

Wirehouses and IBDs often offer one-size-fits-all technology without customization. Investment advisors working for these firms could end up paying for solutions they don't want or use. Even more frustrating, they're stuck with the technology package even if it doesn't perform to their expectations.

As an independent investment advisor, on the other hand, you have the freedom to choose the technology you want. And you're not restricted to one company's technology.

With over 30 years of working with and learning from investment advisors, Schwab has developed a flexible technology platform designed to help investment advisors manage their entire office—from front to back. Schwab's platform combines expertise and advanced proprietary tools with best-in-breed third-party solutions that provide you with an integrated, comprehensive, end-to-end solution. This customizable platform can help you share information, stay connected with clients, and get your approvals on the go.

With the right technology at your fingertips, it's easier to anticipate client needs, demonstrate your value, and build the business you want.

When choosing technology, you should also consider the degree of support available. Schwab's experienced technology professionals can help you map out technology configurations, engage with third-party providers, and create efficient digital workflows. Schwab can help you get the most out of your technology—CRM and portfolio management, cybersecurity, mobile access, automated investment tools, and more—both today and as your needs evolve.

> "One of the great things about the RIA model is that you get to pick and choose the different technology packages that best fit your clients' needs."
>
> **—Fran Hoey, CFM, CIMA®, CFP®**
> President, Hoey Investments

Making the transition

Transitioning to independence can be intimidating. Investment advisors on the verge of starting, affiliating with, or joining an RIA firm often wonder about timing, costs, and legal risks, among other factors. Many are particularly concerned about how the transition will affect their clients.

Fortunately, resources are available to help you make the transition. Most custodians offer at least some transition support—from basic office setup to assistance through every phase of the move.

With an average tenure of more than nine years at the company, the consultants at Schwab Advisor Transition Services® have completed more than 3,400 advisor transitions to the RIA model and moved more than $414 billion in AUM.[19]

Schwab tailors available transition support to your business goals. The degree of support varies, but it typically starts with business planning and moves into other phases.

Schwab's support services generally include the following:

Building a transition plan

A Schwab Transition Consultant listens to your goals, evaluates your needs, and helps you build a transition plan.

Setting up the business and back office

Schwab can connect you with third-party providers, including resources for technology, legal and compliance, office space, marketing, and more.

Transferring client accounts

The Schwab Advisor Transition Services team helps you create a smooth client account setup and a hassle-free transfer process.

Building a successful business

Craft a long-term growth strategy and operate more efficiently with the help of Schwab's service team, in-house consultants, and technology platform.

The important thing to remember is that you're not alone. Custodians like Schwab have helped thousands of investment advisors successfully make the transition to independence. It's just a matter of deciding whether independence is the right choice for you.

3 time-tested steps to success

Discover
your options and economics.

Plan
your business and transition.

Launch
your new firm.

"When we go out and canvass our advisors that have made the move to independence, the most common response we get is, **'I wish I had done this sooner.'**"

—Brian Hamburger
President and CEO, MarketCounsel Consulting


Discover your own path
Explore your options for independence. Start a confidential conversation today.
Contact a Schwab Business Development Officer at advisorservices.schwab.com or call 877-687-4085.

Sources

1. *The Cerulli Report, U.S. Intermediary Distribution 2021: Leveraging Data to Navigate Change*, Exhibit 2.05, Cerulli Associates.
2. See note 1 above.
3. *The Cerulli Report, U.S. Intermediary Distribution 2021: Leveraging Data to Navigate Change*, Exhibit 2.08, Cerulli Associates.
4. *The Cerulli Report, U.S. Intermediary Distribution 2021: Leveraging Data to Navigate Change*, Exhibit 2.07, Cerulli Associates.
5. Charles Schwab Independent Advisor Outlook Study, Wave 29, June 2021.
6. See note 1 above.
7. See note 4 above.
8. See note 1 above.
9. Median results for all firms with $25 million or more in AUM. 2022 RIA Benchmarking Study from Charles Schwab, fielded January to March 2022. Study contains self-reported data from 1,218 firms and was not independently verified. Figure includes owners' retirement benefits and $84,250 in transition costs. Past performance is not an indicator of future results.
10. *Commission Interpretation Regarding Standard of Conduct for Investment Advisers*, U.S. Securities and Exchange Commission, July 12, 2019.
11. Independent Advisor Sophomore Study from Schwab Advisor Services, Logica Research (formerly Koski Research), March 2018.
12. *The Cerulli Report, U.S. RIA Marketplace 2021: Meeting the Demand for Advice*, Exhibit 4.01, Cerulli Associates.
13. See note 11 above.
14. See note 11 above.
15. Median 5-year compound annual growth rate over the period from year-end 2016 through 2021 for all firms with $25 million or more in AUM. 2022 RIA Benchmarking Study from Charles Schwab, fielded January to March 2022. Study contains self-reported data from 1,218 firms and was not independently verified. Past performance is not an indicator of future results.
16. See note 1 above.
17. *The Cerulli Report, U.S. Advisor Metrics 2021: Client Acquisition in the Digital Age*, Exhibit 2.01, Cerulli Associates.
18. *The Cerulli Report, U.S. RIA Marketplace 2021: Meeting the Demand for Advice*, Exhibit 2.33–Part 1, Cerulli Associates.
19. ACT Advisor Conversation Services Dashboard Metrics, as of April 2022.

About Schwab Advisor Services

Schwab Advisor Services™ is an industry leader,* providing custodial, operational, practice management, and trading support. For over 30 years, Schwab Advisor Services has worked resolutely with independent investment advisors to develop proven processes and insights for starting, building, and growing RIA businesses. Schwab Advisor Services has a strong vision for RIAs and their future and is committed to pushing the financial advising industry forward on investment advisors' behalf.

*Charles Schwab Strategy.

This information is not intended to be a substitute for specific individualized tax, legal, or investment planning advice. Where specific advice is necessary or appropriate, Schwab recommends consultation with a qualified tax advisor, CPA, financial planner, or investment manager.

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Experiences reflected are not a guarantee of future performance or success and may not be representative of your experience.

Schwab designed the RIA Benchmarking Study to capture insights in the RIA industry based on survey responses from individual firms. The study provides information on topics such as asset and revenue growth, sources of new clients, products and pricing, staffing, compensation, marketing, technology, and financial performance. Since the inception of the study in 2006, more than 4,300 firms have participated, with many repeat participants. Fielded from January to March 2022, the study contains self-reported data from 1,218 firms that custody their assets with Schwab or TD Ameritrade and represents $1.8 trillion in assets under management, making this the leading study in the RIA industry. Schwab did not independently verify or validate the self-reported information. Participant firms represent various sizes and business models. They are categorized into seven peer groups by AUM size. The study is part of Schwab Business Consulting and Education, a practice management offering for RIAs. Grounded in the best practices of leading independent advisory firms, Business Consulting and Education provides insight, guidance, tools, and resources to help RIAs strategically manage and grow their firm.

The Economic Discovery Tool (Tool) is intended solely for use by investment professionals. The Tool simulates the pro forma financial results of various hypothetical scenarios for establishing, operating, joining, and/or selling an investment advisory practice or firm and compares those simulated outcomes to various alternatives. The scenarios and alternatives covered are not exhaustive and may not be representative of those you actually encounter. Moreover, the simulated pro forma results are materially dependent on various assumptions and inputs, some of which are made and specified by you and some of which are static. These assumptions and inputs may not reflect actual circumstances, and thus the Tool is inherently limited and intended for general informational purposes only. The simulated pro forma results do not reflect, and are not guarantees of, actual or future results. Your actual results may be materially different from those simulated. Schwab makes no warranty of the accuracy or completeness of the Tool or the simulated pro forma results and shall have no liability for your use of the Tool. The Tool is not intended to provide financial, investment, legal, tax, or regulatory compliance advice. You are urged to consult your own professional advisors.

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AHA (0622-278G) MKT75421-06 (01/23)

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