charles SCHWAB

Advisor Services

Forward momentum: Elite teams take the helm at RIA firms

Own your tomorrow

The breakaway moment

The independent Registered Investment Advisor (RIA) industry has evolved. Once reserved for pioneers, independence has moved from uncharted territory to undeniable opportunity, a shift recognized by the market and powered by a sophisticated ecosystem of support. RIAs have set trends in the financial advising industry, with unfettered access to investment opportunities, client servicing technologies, and wealth management resources. In response, wirehouse and broker-dealer teams are breaking away to focus on their client experience and pursue true enterprise value—and their clients are following.

By going independent, teams gain the control to decide what's best for their clients and their businesses. They're free to create their own definition of success and build a professional legacy.

Schwab helped pioneer the RIA model and has earned the trust of nearly 15,000 independent advisor firms. We provide help at every step—from transition support to business consulting advice and custom benchmarking reports. Because of this experience, we have a unique understanding of what investment advisors need as their practices evolve and grow.

In the following pages, we'll provide insights from some of the industry's leaders as they discuss the benefits of independence. Here are the topics we'll cover:

Why teams break away

When you read beyond the headlines about billion-dollar teams leaving captive models to launch their own RIAs, a story emerges: “We wanted a better way to serve our clients—and ourselves.” Here’s a look at what is drawing advisor teams into the RIA space.

Channel growth and maturity

The RIA model is attracting more assets—and clients—each year. Unlike assets in the wirehouse and independent broker-dealer (IBD) channels, independent and hybrid RIAs experienced the largest year-over-year asset growth rate, a trend that holds over the 5- and 10-year compound annual growth rates (CAGRs).[1]

On the other side of the spectrum, as the RIA channels continue to consolidate, the number of large RIA firms has been growing by double-digit rates over the past five years. Firms with $1 billion to $5 billion in assets under management (AUM) grew at a 15% five-year CAGR, and those with $5 billion or more in AUM grew at a 20% annual rate. In just five years, billion-dollar RIAs more than doubled their firm market share. In 2016, only 4% of RIAs managed at least $1 billion, but by 2021, billion-dollar RIAs accounted for 8.7% of all firms.[2]

“This is a long-term movement of assets to a more investment advisor–friendly, consumer-friendly model,” says Christopher Reedy, managing director of business development at Schwab Advisor Services™. Roughly 80% of RIA firms custody with Schwab either fully or partially.[3] “Each successful transition grows exposure and demonstrates the channel’s sophistication.”

Once seen as uncharted territory, the RIA model has matured and now comes with a built-in support system. RIA teams can choose from a menu of world-class partners and providers, the latest in technology, broad products and services, and experienced consultants to help build the firm they want.

In just five years, billion-dollar RIAs more than doubled their market share.

8.7%

of RIAs managed at least $1 billion in AUM in 2021, while only 4% managed as much in 2016.[4]

Evolving expectations

Investment advisors’ businesses are being shaped by shifting expectations. Regulators are pushing all investment advisors toward what RIAs already promise: a fiduciary standard. This ultimate sense of accountability reassures high-net-worth (HNW) and ultra-high-net-worth (UHNW) clients, including businesses owners, that they’re working with someone they can trust.

We believe clients with recently acquired wealth, as well as those with long-standing financial wherewithal, value the entrepreneurial spirit. They may view RIAs as more in tune with their own mindsets.

“Compared with other areas of financial services, you’re looking at a business model that brings fewer conflicts of interest and greater alignment with clients,” says Brian Hamburger, one of the industry’s top legal experts and founder of MarketCounsel. “That will continue to reign superior.”

Existing limitations and risks

Product constraints. Reductions in and changes to payout grids. Fee structures that encourage use of proprietary products. The limitations of captive models can make it harder for teams to compete for and serve clients. Companies set policies based on the risk potential created by less experienced staff, which can limit the options for sophisticated teams. In some models, broker-dealer services like technology are also built into investment advisors' fees, regardless of whether they are used.

> "There's an innate conflict when a firm provides the custody, the advice, and the investment products. It's partly why we're seeing this mass migration of assets to an investment advisor–friendly, client-friendly model."
>
> **—Christopher Reedy**
> Managing Director of Business Development, Schwab Advisor Services

Even worse, some financial institutions have experienced highly publicized missteps, which can diminish client confidence. Many clients trust their investment advisors absolutely, but they don't necessarily value the firms they represent.

Travis Danysh, managing director and head of mergers and acquisitions at Focus Financial Partners, sees the benefit for breakaway teams. "Clients commit to an advisor because of a trusted relationship," he says. "Even when you add more services, clients appreciate an advisor's in-depth understanding of their personal, not just financial, lives."

That's why teams find that going independent can actually create an opportunity to align with client values and deepen relationships.

Investment advisor perspective

Herman Rij, Kori Lannon, and Brian Cort
founding partners, Quadrant Private Wealth

Q ***What led your team to independence?***

A **Rij:** I've been in this business for almost 50 years. We continuously got recruiting calls, and my answer was always, "Why bother?" I felt that our wirehouse was the best firm for our clients. But after it was acquired, doing the things for our clients that we wanted to do became much more cumbersome. The firm, as I knew it, was no longer there. We left because we did not feel comfortable maintaining a relationship with a firm that was putting its bottom line ahead of our clients. It was really an outgrowth of a client-first mentality to running our business.

Q ***How did your clients react to the news?***

A **Lannon:** Our clients were very, very supportive of our move. Many said, "What took you so long?" We were tremendously successful in the number of clients we brought with us. Leaving also opened up a whole new universe of people who were now willing to talk to us. Some of that stems from our entrepreneurial investors. They had an appreciation for the steps we were taking.

Q ***What value have you seen in working with a strategic partner?***

A **Cort:** The real challenge is that suddenly you're running a business. The firm Focus Financial Partners gave us the financial footing to break away, then got us on the bicycle, attached some training wheels to it, and helped us drive down the street. They've got a deep bench of people, not only directly but among the partners within the Focus family. That's what we consider ourselves: part of an extended family of folks who are like-minded in their approach to doing the right thing for clients, just doing it in different ways.

Attractive economics

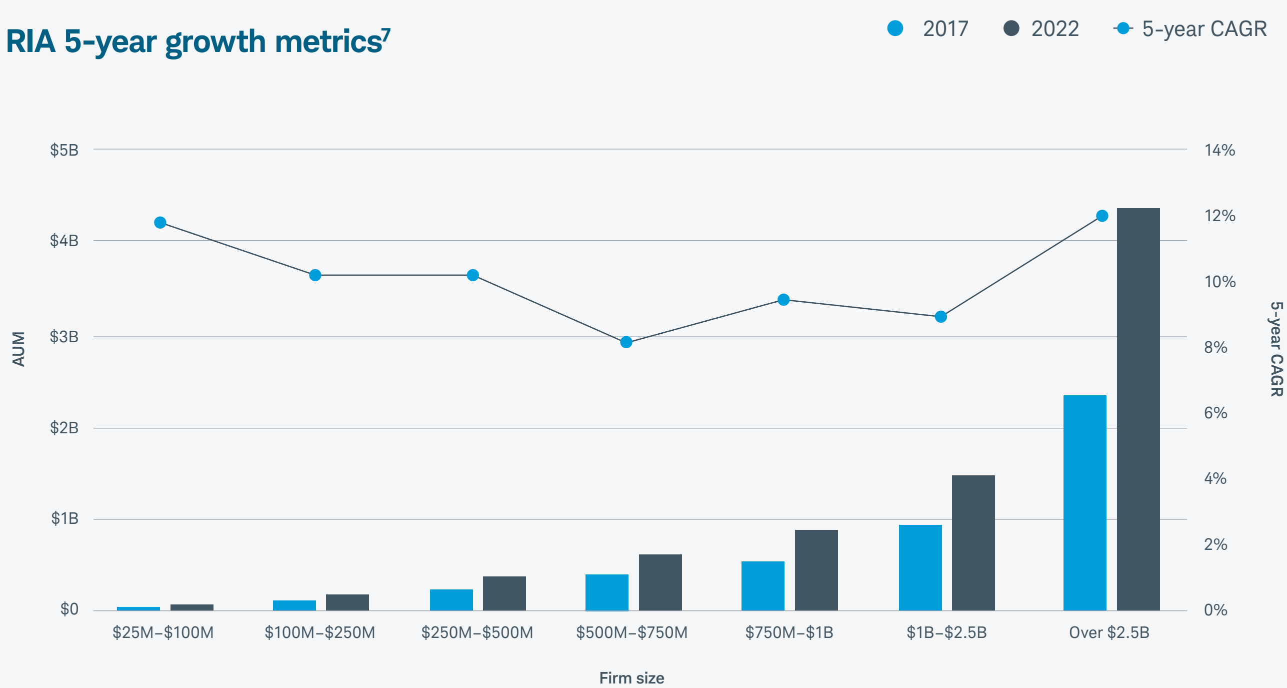
As teams grow larger in captive environments, they often hit a point at which the economic profile of the RIA model becomes more appealing. They realize that they could potentially earn more just by joining a new model. As independent investment advisors, teams have greater control over pricing and the ability to keep 100% of what they earn. Teams considering independence can work with their Schwab Business Development Officer (BDO) to see what their specific profit-and-loss picture may look like.

The economics of the RIA model are promising—and typically come with lower expenses and higher net incomes than those found in the captive environment.

According to a recent Cerulli Associates survey of investment advisors interested in independence, 95% cited higher payout as a factor.[5]

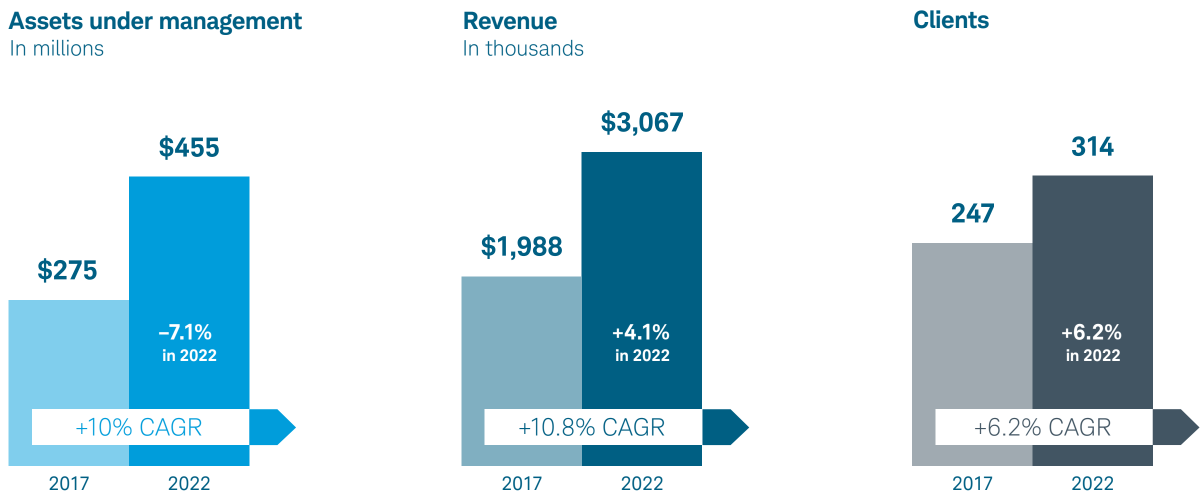
But transitioning to the RIA model isn't about the immediate payoff. It's about long-term revenue generation and building enterprise value. Entrepreneurial investment advisors see the value in a forward-thinking strategy to build success over time. They gain an asset that they could monetize down the road by selling either partial equity or the entire business. For 82% of IBD advisors, increasing the financial value of their practice is a reason to transition to the RIA model.[6]

RIA 5-year growth metrics[7]



Enhanced early growth potential

Schwab's 2023 RIA Benchmarking Study found that RIA firms can experience accelerated growth despite a challenging environment.[8]



Proven successes

Multi-billion-dollar teams have recognized and seized the opportunity to achieve considerable growth in the RIA model.

The seeds of such success can sprout in transition. RIAs report that 43% of their asset inflows originate from new clients joining the firm, and they derive more than half (56%) of their new clients through referrals from existing clients, friends, or family members.[9]

Strategic teams see the RIA model as a chance to evolve and build scale to compete at the highest levels and provide their clients with an even greater set of services.

Industry veteran John Furey, a business consultant and founder of Advisor Growth Strategies, sees competitive teams making the move motivated by a desire to better serve clients: "Multi-billion-dollar teams don't view this as running from something. They view it as the best structural and long-term decision for the team and their clients."

When is the right time to pay back my forgivable loan?

If you're an investment advisor a few years away from an expiring loan, transitioning and paying it off quickly could have a valuable upside. A good custodian can connect you with legal counsel and tax advisors to help assess the specifics of your situation, including the potential increased payout of the RIA model and its implications on capital gains and income taxes. In addition, lenders that work with RIAs may be able to provide financing, if needed, to pay off your loan.

The possibilities of the RIA model

Teams that go independent gain enough flexibility and control to build the reputation, culture, and client service model they prefer. Here are some of the benefits that the RIA model enables investment advisors to achieve.

Marketing power

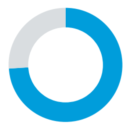
RIAs have the freedom to build an external brand according to their own vision. In fact, 74% of IBD investment advisors cite greater marketing flexibility as a reason they would consider transitioning to the RIA model.[10]

"A brand represents who a firm is and the unique way they solve their clients' problems," explains Lisa Salvi, head of Business Consulting and Education at Schwab Advisor Services™. "As an investment advisor, the only true way to have and grow a brand is in the RIA model."

The unique way RIAs serve clients can be their differentiator or niche, which helps many teams target client segments that they may not have been permitted to pursue before.

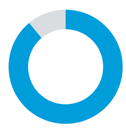
Investment advisors also get more of a say over how and when they reach potential clients. For some teams, this includes capitalizing on more media opportunities with less red tape. For others, it includes the tech they use to reach out to prospects and existing clients. Janelle Ward, director of Business Consulting and Education for Schwab Advisor Services, says, "I'm excited about advisors adopting digital communication tools to use with clients. It's not just for the younger generation—it's a matter of convenience."

Why investment advisors prefer the RIA model



74%

of IBD investment advisors cite greater marketing flexibility as a factor.[11]



89%

of employee advisors say more autonomy is a factor.[12]

Access to products

With an open-architecture model, RIAs have access to more products and services. Teams can count on doing virtually everything they currently do, and more. This can be a great comfort to clients as well, because they're unlikely to lose anything. What's more probable is that everything in their portfolios may be the same or better.

In fact, RIAs have wider access to products across the industry without the pressure to cross-sell or meet sales quotas. This allows them to tailor sophisticated client solutions to the markets they serve and to provide conflict-free advice. For 89% of investment advisors in the employee model, greater autonomy was a factor in their interest in the RIA model.[13]

Investment advisors are free to take the path that best suits the needs of their firms and clients. For some, that means keeping their commission-based business and a broker-dealer affiliation and transitioning their entire book of business to the fee-based model over the long term. Others continue to offer hybrid services as part of their long-term strategy. Consultants can help teams pinpoint the strategy that steers them in the desired direction.

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>
> **—Janelle Ward**
> Director of Business Consulting and Education, Schwab Advisor Services

Control over business

By becoming independent investment advisors, teams gain control over the direction of their businesses. Everything from the service model to firm operations to future goals is up to them.

The RIA model lets investment advisor teams select the latest operational components—such as technology, benefits administration, compliance, and investment management—that fit their specific needs. With providers and vendors seizing their own opportunities in the RIA space, teams also have plenty of choices when it comes to enhancing their service efficiency.

How will your partnerships evolve in the RIA model?

Each member of your team brings unique talents and expertise to the table to help you build something worthwhile together. Consultants can guide discussions among your team and help you create a Firm Design Blueprint so that everyone can get a sense of what your future looks like. Do you want to grow, acquire firms, or build a legacy? Does anyone plan to bring family into the firm? By merging your visions, you and your partners can establish a unified message and value proposition.

"There's almost this kid-in-the-candy-store type of feeling," says Danysh, of Focus Financial Partners. "Advisors finally get to set up and run their business on behalf of their clients—in their clients' best interests. It is a liberating feeling."

Schwab BDOs have deep connections with in-house partners and third-party consultants and providers. They can introduce teams to experts who can help design their firms and determine which pieces of business to outsource and which to keep within their own walls.

Strategic teams capitalize on this opportunity to put better business processes into practice and build unlimited capacity into their systems. This makes it easier for them to increase profitability with each additional client.

"You have to find ways to differentiate yourself," says Shirl Penney, president and CEO of platform provider Dynasty Financial Partners. "That requires getting to scale faster, something that's easier to do when you have multiple advisors to break up roles and responsibilities."

HNW clients grow in proportion to the size of the RIA firm.

Over

75%

of relationships for more than one-fifth of RIA firms with at least $2 billion under management consist of HNW clients.[14]

Freedom to serve clients

Large teams may serve sophisticated investors with complex needs. These clients often seek one trusted investment advisor who can handle everything: estate and tax planning, charitable giving, retirement income planning, cash management, and more.

The RIA model offers the flexibility to win and serve these high-net-worth relationships. In fact, the percentage of HNW clients generally grows in proportion to the size of the RIA firm. More than one-fifth (22%) of RIAs with at least $2 billion under management have greater than 75% HNW clientele.[15]

Making the transition also gives investment advisors greater freedom to differentiate themselves with soft services, which are becoming increasingly important to HNW and UHNW investors.

You can count on your custodian to help you determine whether these services should come from third parties or stay in-house. In either case, RIAs excel at this type of service because of their objectivity. They're on the same side of the table as their clients.

Opportunities for inorganic growth

Removing the constraints of a captive environment can unlock organic growth for investment advisors. But teams are also capitalizing on inorganic growth potential.

"We see mergers and acquisitions as a sub-story of the growth of the independent advisory industry in general," says Jon Beatty, chief operating officer of Schwab Advisor Services™. "The success of the RIA model has led to significant growth in M&A activity." Beatty adds that RIAs are merging for many reasons, including succession, scale and efficiency, geographic strategies, or building durability and a long-term business model.

David DeVoe, industry expert in valuation and founder of DeVoe & Company, cites similar reasons for acquisition momentum. "RIA teams are building more than a client platform," he says. "They're building a platform that other advisors can join."

If I'm a few years away from retirement, are there upsides to adopting the RIA model?

Investment advisors who are nearing retirement may find that transitioning their books of business to the RIA model can be a lucrative exit strategy. Possibilities include folding into an existing RIA or selling to an internal successor who makes the move with them. Agreements can be structured so that the investment advisor has more control over when to step down, which isn't always the case in captive environments. You'll be able to explore your options and determine the best path forward for your specific situation.

Potential to build a legacy

As partial or full business owners, RIAs have the chance to propel their firms across generations. Succession strategies also can help them maintain continuity. They'll also have access to resources that can help them create the best plan for themselves, their clients, and their successors. Schwab's Executive Leadership Program can support investment advisors in grooming the next generation of senior executives.

"Teams seeking to build a legacy firm shouldn't put an individual investment advisor's name on the door," says Shirl Penney. To feel secure and supported when investment advisors choose to exit the practice, he says, clients need to feel connected with the firm brand rather than with specific individuals. Legacy firms can benefit from institutionalizing client relationships in this way. ■

Exploring the ecosystem of support

There are many ways to transition to the RIA model. The support ecosystem has evolved as the channel has grown, forming multiple inroads to deliver the resources that teams need. With every connection made, their bench gets deeper.

"There is a significant number of ways you can put together a highly customized solution for your practice," Schwab's Christopher Reedy, says. Schwab can match investment advisor teams with leading experts and consultants to guide the creation of unique plans that support long-term success.

Our support networks all work together to help ensure a smooth transition so that teams are able to reach their future potential and achieve their goals.

How long do transitions take?

Typically, the process takes four to eight months, depending on the pathway and support system you choose. That includes due diligence as well as executing the transition. Decide on the timeline that works for you with the help of your support team. Keep your plans confidential, even among your most trusted friends and family. The faster the transition and the fewer parties involved, the better.

Equity partners

To provide capital for an investment advisor team's transition and future growth, an equity partner can buy a portion of its cash flow.

Equity partners may be private investors who don't involve themselves much in firm operations. Or they can be companies whose purpose is to provide teams with not only financial backing but also turnkey platform services like technology, investment management, and compliance. In the latter scenario, equity partners can provide ongoing practice management and marketing and consulting support to help investment advisors both optimize day-to-day operations and define and execute long-term strategies.

Focus Financial Partners, a firm that invests exclusively in fiduciary wealth management businesses, is a standout example of this latter type of investor. The Focus team wades in shoulder to shoulder with investment advisors and offers transition project management in those crucial first few months when teams are learning how to run their businesses. Focus works closely with investment advisors' custodians to help with everything from technology to account transfer to setting up the first billing cycle.

"We help teams think about every aspect of going from a captive environment to independence—right down to picking out the tile in the new office," Danysh explains. "We partner with them to find office space, negotiate with vendors, and navigate the legal landscape of starting your own firm. There are countless hours involved, and we are in lockstep the whole way."

Other industry experts, like Scott Cohen, director, Business Consulting and Education at Schwab Advisor Services™, can help advisors in transition make staffing decisions and set up the infrastructure they need to succeed. “We want to help firms think through what types of hires they might need at various stages of growth.”

Platform providers

Platform providers help investment advisor teams launch and run their businesses efficiently using turnkey solutions. These providers typically operate on a contract basis without an equity stake in the business.

With this support, investment advisors can take the operational elements of running a business—such as selecting and maintaining technology, recordkeeping, investment management, and ongoing compliance—off their plates. More than that, teams can rely on providers and custodians to work together to deliver business consulting services, which will help to institutionalize and scale their firms. Platform providers can also offer outsourced professional management, another benefit that can make transition and growth easier.

> “We give teams the space to evolve from world-class advisors into world-class CEOs.”
>
> **—Shirl Penney**
> President and CEO, Dynasty Financial Partners

As with equity partners, investment advisor teams can rely on platform providers to work with them to develop marketing strategies and collateral, including their websites. Platform providers may also coach and train teams in practice management.

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Will your clients come with you?

You and your team have worked hard to cultivate lasting and personal relationships with your clients. Those relationships are yours, not your employer’s, and most of them—72% on average[16]—are likely to follow you. Your support network can help you solidify your retention strategy and craft messages for communicating the move. This is also an opportunity to think about your ideal client and which existing clients you’d like to bring over. Remember, this model has the potential to be more profitable. Your revenue per client typically improves, which gives you more opportunity to maximize revenue overall, regardless of whether you invite every client to join you.

"We give teams the space to evolve from world-class advisors into world-class CEOs," explains Dynasty's Shirl Penney. He describes Dynasty as an unseen force powering firms, akin to the Intel chip found in computers.

Dynasty also empowers its teams with access to an elite community of like-minded independent investment advisors. These investment advisors share best practices and can tap into the community's intellectual capital to deliver more specialized expertise to their clients.

Investment advisor perspective

David B. Root Jr., founder and CEO, DBR & CO

Q ***What led you to the RIA model?***

A The primary driver was the fiduciary standard. Financial planning is fundamental for us. It's where we start, much like the coffee bean is where all of Starbucks starts. Our client engagements begin with a planning process, in which we make it clear that we're going to place our clients' best interest first. We follow it with an investment process that is as simple and transparent as we can make it, and as affordable as possible. Our high-net-worth clients now not only want transparency—they demand it. And it's certainly being demanded on the institutional side as well.

The independent space was growing much more quickly than other channels. So we thought we'd have a better chance to recruit investment advisors and also grow inorganically through acquisitions.

Q ***What helped drive a successful transition process?***

A Choosing the right partners. When we were first contemplating the move, we took a step back and said, "OK, where is the independent space headed, who are the players, and who are the likely winners?" Beyond a shadow of a doubt, we felt that Schwab was not just a leader but *the* leader. We knew that leadership position was only going to increase over time. Dynasty was a newer entry into the field as a platform provider, and we connected almost immediately with them and their senior management team.

Once we took the time to develop good relationships with Dynasty and Schwab, we felt we could make the move and that it would be as seamless as possible. Then it was a matter of gathering the courage to, essentially, burn the boats and not look back. My only regret is that we didn't make this move five years earlier.

Q ***What's different about your business and the way that team operates?***

A The independent model allows us to be more creative in how we report to and serve our clients.

We've stepped further into the world of fiduciary advice through corporate retirement planning, 401(k)s, deferred compensation, and 457 plans. We've had the good fortune to do a couple of acquisitions. And the two acquisitions that we've done have both included 401(k) lines of business that we could add to our own.

One of the greatest opportunities of going independent is growing your enterprise value in a way that's best for you and your clients.

Consultant services

Some of the longest-tenured business consultants in the industry have made their services available for breakaway RIAs. Schwab BDOs can help advisors figure out whether independence is right for them and then connect them to—and work closely with—consultants to help determine which type of transition makes the most sense. Teams that choose to move forward can also rely on assistance in laying down business fundamentals such as partnership design and organizational structure.

Consultants may work independently or alongside other support systems to project-manage transitions and to provide business operations consulting, including strategic planning, mergers and acquisitions support, and succession planning. During transition, there are many choices to be made about firm processes, but consultants and custodians can work together to help firms narrow down their options and thoughtfully select each product and provider based on the needs of their clients and business.

Each consultant's involvement in the transition process can range from providing turnkey solutions to specific ala carte services. Schwab's business consulting team works side by side with experts to help guide firms through their initial move and their ongoing growth within the industry.

Custodial support

Whichever path an investment advisor team chooses, it will hold client assets with a custodian. But custodians are more than just a repository for assets. Teams should be able to rely on support from an experienced custodian at every turn.

Preparing for legal elements of transition

Industry legal expert Brian Hamburger says large teams often have more complex situations to handle. With considerations such as multi-state registration, dynamic service offerings, broker-dealer affiliations, or insurance needs, they'll likely need to disclose more activities than the typical investment advisor would. Legal consultants such as Hamburger can help with risk mitigation and regulatory compliance throughout the transition, as well as with ongoing compliance.

Since 2005, Schwab Advisor Services™ has helped nearly 3,500 advisors with over 1 million accounts make the move to the independent RIA model.[17] We were the first custodian to create a dedicated transition team, and we know what it takes to successfully help advisors through this process. We also have experience connecting advisors with leading in-house and third-party consultants and providers and delivering practice management mentorship over the long term.

As elite teams forge new ground for the investment advisory industry, they need advocates who understand where the RIA space has been and where it's headed. As a pioneer in the RIA industry, Schwab remains at the forefront as the industry's leading custodian. We provide a stable source of service and support for RIAs.

"Transitioning investment advisors don't know what they don't know. Having experienced teams' support to help them understand their options for independence is critical to their future success," Schwab's Salvi says. "Our three transition teams help focus an advisor's vision for their ideal firm and guide them through the launch. No other custodian has invested in these capabilities the way Schwab has."

Existing firms

Investment advisor teams can leverage an established RIA infrastructure by joining an existing firm. They get to experience many benefits of the RIA model, but they may spend more time focused on serving clients than on building a business.

Acquiring firms look for teams that fit their company culture and bring new expertise. They also consider whether size, geography, clients, and investment philosophies are a good match. Teams can negotiate the terms of the deal, which can be structured in a variety of ways and sometimes include ownership. ■

Financing the transition

Lenders can provide upfront capital to help cover costs, including leasing office space, purchasing IT systems, and even paying salaries. James Hughes, head of investment advisory lending at Live Oak Bank, a leading lender for investment advisors, explains: "Advisors have conversations with Live Oak Bank to get approved for financing well in advance of their break date. Having the certainty that your forgivable notes will be paid off and having the first few months of expenses taken care of is crucial. This allows advisors to focus on what really matters—their clients."

Charles Schwab & Co. can also provide qualified investment advisors with business loans to help them start and expand a successful independent practice.

Investment advisors can take proactive steps to prepare for lending conversations, such as defining the monthly amount necessary to operate the firm for the first year and annually or quarterly thereafter.

Hughes says lenders' considerations include credit standards, ADV or FINRA reports, cash flow, affordability to debt, professional character demonstrated, and the security of client relationships.

How independence is transforming practices—and the industry

Independent investment advisors have more freedom to put clients first and offer the products and services they need. RIAs can control their marketing message, define how their businesses should run, capitalize on greater economic potential, and build legacies that last. More and more, teams are recognizing this potential and going after it by transitioning to the independent RIA model.

The movement continues

Faced with industry uncertainty and investors' intensifying calls for independent advice, large teams seeking the benefits of independence continue to break away to the RIA space.

During the transition, Schwab Advisor Services™ provides specialized teams and data-driven insights to help every step of the way. As one of the original innovators of the industry and the leading advocate for moving the model forward, Schwab works with—and custodies assets for—more RIAs than any other custodian.[18] For more than 35 years, Schwab has helped thousands of teams solidify their futures by going independent.

Schwab's Reedy sees clients' preference for the model's key benefits as contributing to growth: "Customers from across industries are demanding more personal, more customized service—something the RIA model makes possible."

The numbers support this perspective. By 2026, independent and hybrid RIAs will control nearly a third (32.9%) of asset market share, compared with 26.4% for wirehouses and 18.4% for national and regional broker-dealers. The wirehouse channel's asset market share is projected to decline by 8 percentage points from 34.4% in 2021 to 26.4% in 2026. According to a 2022 Cerulli report, hybrid RIAs are poised to experience the largest gain (3.7 percentage points) in projected asset market share between 2021 and 2026.[19]

"Customers from across industries are demanding more personal, more customized service—something the RIA model makes possible."

—Christopher Reedy
Managing Director of Business Development, Schwab Advisor Services

Skyrocketing prospects

Despite current turbulence, those projections have industry leaders feeling optimistic about the RIA model.

"Thinking long term, I think M&A in the RIA space is still just an incredible opportunity," says Danysh, of Focus Financial Partners. "This is a time when clients are looking to a fiduciary, a trusted resource. And true, sound advice is warranted."

With increased movement among billion-dollar teams, the needle—and potential—for large RIAs continues to tick upward. Dynasty Financial Partners' Shirl Penney predicts that in 20 years, the industry will see RIAs valued at $50 billion to $100 billion.

He also sees the possibility for exceptional achievement in more than just the numbers. Penney believes that in a decade or less, large RIAs could be household name brands.

Claiming the opportunity

All of this points to unprecedented growth potential for entrepreneurial advisor teams that harness the momentum and join the RIA model.

32.9%

of investment advisor–managed assets are projected to be held within independent RIA and hybrid channels by 2026.[20]

Greater freedom was once the primary allure of the RIA model. Now, it's joined by a deepening sense of security created by decades of success and thousands of successful transitions. Advisors have strong support networks and more tested avenues to independence.

The opportunity is no longer uncharted, but much of it is unclaimed and waiting for ambitious teams to stake their territory. ■

Investment advisor perspective

Chris Allegretti, managing principal and CEO, and Scott Cross, principal and COO, HBKS Wealth Advisors

Q ***How does your firm approach growth?***

A **Cross:** In 2001 we had approximately $150 million in AUM. Now we're over $5 billion in AUM. The vast majority of our growth was organic. Recently, we've had a couple of M&A activities too. But we're not in this just to get bigger. We're not an aggregator. We're looking for opportunities where one plus one is greater than two.

Allegretti: We don't chase numbers. We chase like-minded individuals. We like the culture we've built and the speed at which we're growing. We find opportunities that fit our strategy. The first litmus test for us when adding anyone to our firm is whether there's alignment on what we're trying to achieve.

Q ***What does holistic client service mean to you?***

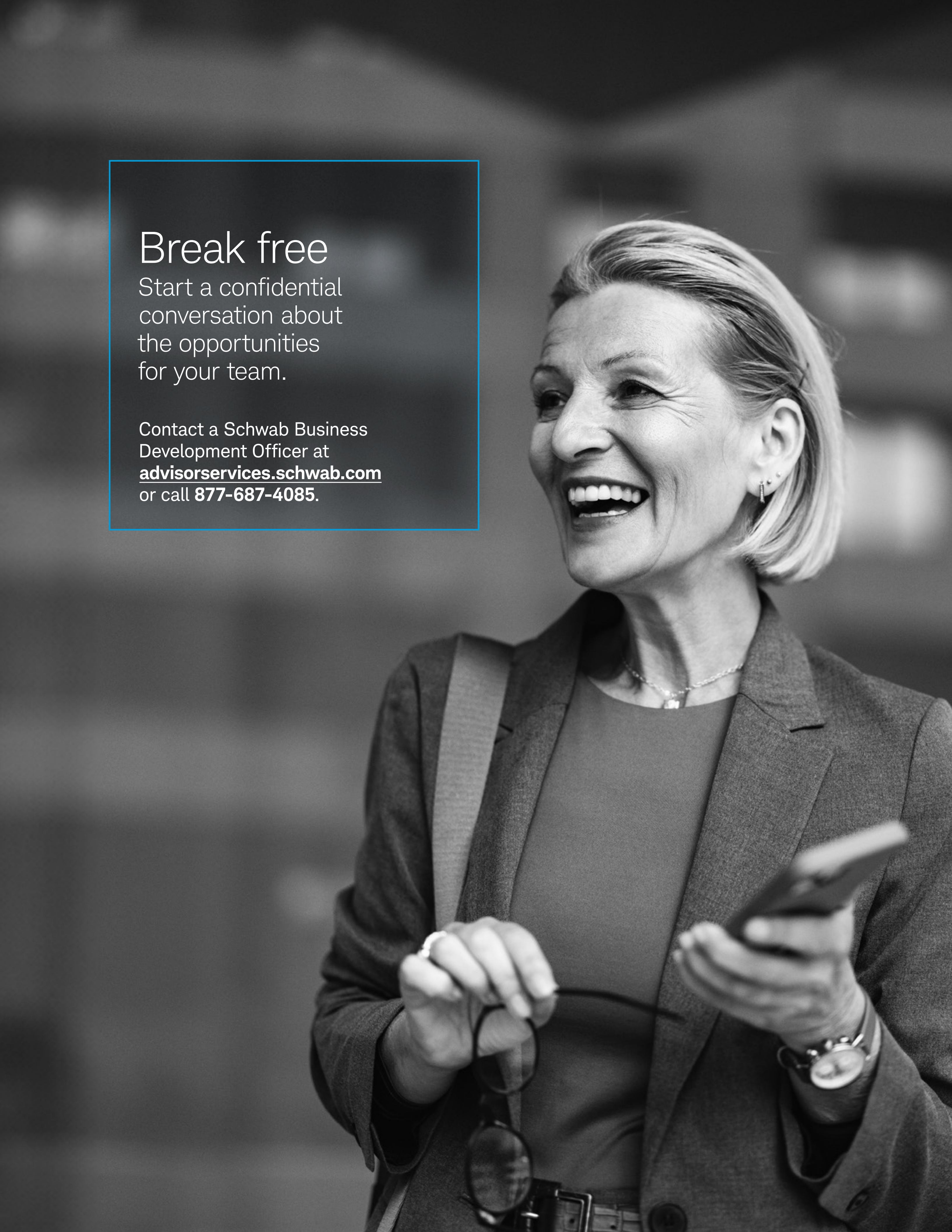
A **Cross:** We feel strongly that having planning conversations versus simply focusing on investment management drives deeper, more valuable, and longer relationships.

Allegretti: We constantly challenge our firm to make sure that we're providing the services our clients value most. It's amazing what you can learn when you ask clients what keeps them up at night. Clients are getting more and more sophisticated. They're looking for more and more value-added assistance in all facets of life. They not only want to talk about what's going on in their portfolio but also what's going on with the closely held company that generates the wealth managed within it.

Q ***How and why has the firm institutionalized?***

A **Cross:** We redefined how we did business, and Schwab was very helpful in guiding us through all the details. We took all the operations and built technology platforms, integrating as many systems as we could. Now our investment advisors spend less time managing accounts and more time interacting with clients and prospects.

Allegretti: One of the nice things about being closely held is that you get to make choices. Our goal is to systematize as much as we possibly can so that we can humanize the important stuff—the conversations with clients. The only thing worse than change is being irrelevant. We'll continue to make whatever changes are needed to stay ahead of the curve.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About Schwab Advisor Services™

Schwab Advisor Services has more than $3.67 trillion in assets under custody,[21] providing custodial, operational, practice management, and trading support to nearly 15,000 independent advisor firms. For over 35 years, Schwab 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 futures and is committed to pushing the financial advising industry forward on investment advisors' behalf.

1. *The Cerulli Report, U.S. Intermediary Distribution 2022: Redefining Value in Distribution,* Exhibit 2.02, Overview of Advisor Channels, 2022.
2. *The Cerulli Report, U.S. RIA Marketplace 2022: Expanding Opportunities to Support Independence,* Exhibit 2.15, Firms by AUM Segment, 2016–2021.
3. *The Cerulli Report, U.S. RIA Marketplace 2022: Expanding Opportunities to Support Independence,* page 28, Cerulli Associates, 2022.
4. See note 2 above.
5. *The Cerulli Report, U.S. RIA Marketplace 2022: Expanding Opportunities to Support Independence,* Exhibit 4.01, Factors Attracting Breakaway Advisors, 2022.
6. *The Cerulli Report, U.S. RIA Marketplace 2022: Expanding Opportunities to Support Independence,* Exhibit 4.05, Reasons for Preferring RIA Model, 2022.
7. Median results and compound annual growth rates (CAGRs) over the 5-year period from year-end 2017 through 2022 by peer group (based on AUM).
8. 2023 RIA Benchmarking Study from Charles Schwab. Median 5-year compound annual growth rate (CAGR) over the period from year-end 2017 through 2022 for all firms with $25 million or more in AUM. Median results for all firms with $25 million or more in AUM. Past performance is not an indicator of future results. 2023 RIA Benchmarking Study from Charles Schwab, fielded January to March 2023. Study contains self-reported data from 1,300 firms. Participant firms represent various sizes and business models categorized into peer groups by AUM.
9. *The Cerulli Report, U.S. RIA Marketplace 2022: Expanding Opportunities to Support Independence,* Exhibit 6.13, Asset Inflows vs. Outflows Dashboard, 2022, and Exhibit 6.14, Sources of New Clients, 2022.
10. See note 6 above.
11. See note 6 above.
12. See note 5 above.
13. See note 5 above.
14. *The Cerulli Report, U.S. RIA Marketplace 2022: Expanding Opportunities to Support Independence,* Exhibit 6.05, High-Net-Worth Clientele, 2021.
15. See note 14 above.
16. Independent Advisor Sophomore Study from Schwab Advisor Services, Logica Research, March 2023.
17. Schwab Advisor Services, Strategic Business Development, 2020.
18. See note 17 above.
19. *The Cerulli Report, U.S. Intermediary Distribution 2022: Redefining Value in Distribution,* Exhibit 2.13, Projected Asset Marketshare, 2022.
20. See note 19 above.
21. As of September 30, 2023.

For general informational and educational purposes only.

About the 2023 RIA Benchmarking Study from Charles Schwab
Schwab designed the RIA Benchmarking Study to capture insights in the RIA industry based on survey responses from individual firms. The 2023 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 4,500 firms have participated, with many repeat participants. Fielded from January to March 2023, the study contains self-reported data from 1,300 firms that custody their assets with Schwab and represents over $1.7 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 eight 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 firms.

The Firm Performance Index evaluates firms in the study according to 15 metrics that align with the Guiding Principles for Advisory Firm Success to arrive at a holistic assessment of each firm's performance across key business areas. It provides comprehensive comparisons for all firms participating in the study, not just within a peer group. The metrics in the Firm Performance Index measure growth in clients, assets and revenue; client attrition; staff attrition; operating margin; time spent on client service; time spent on operations; standardized workflows; written strategic plan and succession plan; and ideal client persona and client value proposition. The Firm Performance Index is calculated among all firms in the study without regard to assets under management or firm type. Firms that rank in the top 20% of the index are included in the Top Performing Firms.

Past performance is not an indicator of future results.

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