Spectrum of Advisor Independence Study

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Introduction

Schwab Advisor Services’ Spectrum of Advisor Independence Study surveys 152 US financial advisors that have considered becoming independent registered investment advisors (RIAs). The data provides insights into the considerations and expectations of these advisors as they evaluate a move to independence.

Highlights:

- Income potential and control over client service are the most important reasons advisors consider independence.
- Advisors see many benefits to joining an existing firm or affiliating with a platform and will make the move faster if they are able to find the right fit.
- Ideal partners provide scale, flexibility, autonomy and resources.
- Most advisors expect to receive some form of equity when joining a firm – either immediately or over time.
- Advisors are unsure about how the Broker Protocol will impact the industry, but its impact appears neutral in terms of individual decisions to move to the independent model.
Going independent: Considerations
Move to independence means more freedom and control

Advisor sentiment about going independent

- More freedom / control: 44%
- Higher pay / career improvement: 15%
- Better resources / tools: 7%
- Desire to change firms: 6%
- Improve client relationships: 8%
- Other / not sure: 20%

Q: What would it mean to you personally and/or professionally to be able to join an independent advisory firm? (n = 152)
Hesitation: Indecision or uncertainty about benefits of the RIA model

**Most important reason not to go independent**

- Undecided or uncertain about the benefits of the RIA model: 36%
- Not confident my clients would be willing to move: 21%
- Time to plan the move: 16%
- Changes with Broker Protocol: 7%
- Partner not ready to move: 7%

Q: Which of these is the most important reason why you might not move to an independent advisory firm?  
*(n = 152)*
Majority of advisors are looking for some level of support with operations, marketing and staffing

- Errors and omission insurance
- Back office support
- Marketing and branding
- Office space and infrastructure provided

**Full Support**

- Some back office support
- Own brand
- Co-location with established firm
- Some shared staff

**Medium Support**

- Finding and setting up your own space
- Own brand
- Hiring your own staff

**Limited Support**

Q: What type of support model is most appealing for you?
(Note: Percentages do not equal exactly 100% due to rounding)
(n = 152)
Joins/platforms: Independent but not alone
Multiple perceived benefits of joining a firm or affiliating with the platform vs. going it alone

Q: What makes joining a firm or affiliating with a platform provider more appealing than launching your own RIA?

* Note: Includes a combination of “Other” and four other aided choices with low response rates

(n = 152)
Joins have some perceived challenges too

Top three perceived challenges to joining vs. going alone

1. Shared control and influence vs. true autonomy (31%)
2. Finding a cultural fit (29%)
3. Being limited to using the investment models of the firm (22%)

Q: What do you see as the biggest potential challenge of joining an independent investment advisory firm vs. going alone? Select one response.

(n = 152)
Ideal partners provide scale, flexibility, autonomy and resources

**Most appealing firm characteristics**

**Clients**
- Belong to advisor: 84%
- Shared*: 11%
- Belong to firm: 5%

**Firm Size**
- Mid-sized firm: 59%
- Small firm: 24%
- Large firm: 18%

**Branding**
- Shared branding: 59%
- Individual brand: 22%
- Large-firm brand: 19%

**Platform**
- List of vetted options: 54%
- Packaged tech: 42%
- Build own tech: 4%

**Operations**
- Professional support: 54%
- Shared admin: 36%
- Done solo: 11%

**Advice**
- Use multiple resources: 49%
- Deliver solo: 39%
- Deliver as team: 11%

**Expenses**
- Advisor is responsible: 38%
- Hybrid**: 32%
- Shared with firm: 30%

Q: When evaluating firms to join, which options are most appealing when thinking about...

* “Existing clients belong to me/ new clients belong to the firm”
** “Firm pays for fixed expenses/I pay for out of pocket expenses like T&E”

(n = 152)
Q: What capabilities are important in selecting a platform provider or joining a firm? Please check all that apply. 
(n = 152)
Advisors are willing to commit to independence once they find the “ideal firm”

**General time horizon for going independent**

- **Within the next year**: 16%
- **In 1-2 years**: 52%
- **At least 2 years from now**: 32%

**Time horizon for going independent at the “ideal firm”**

- **Within the next 3 months**: 9%
- **In 3-6 months**: 25%
- **In 7-12 months**: 41%
- **At least 1 year from now**: 25%

Q: If you decided to go fully independent, how soon would you like to make the transition?  
(n = 152)

Q: If you found the ideal firm to join, how soon would you like to make the transition?  
(n = 152)
Equity and compensation
Most advisors expect to receive some form of equity when joining a firm.

- 34% Equity offered immediately
- 47% Equity offered after a period of time
- 19% Equity is not expected at all

Q: What type of equity structure would you expect when joining an independent investment advisory firm? (Note: Percentages do not equal exactly 100% due to rounding) (n = 152)
Q: What payout structure would you expect if you were to join a firm? 
(n = 152)

Q: What percent of revenue would you expect, net of personal expenses? 
(n = 104)

Preferred compensation structure

- 68% Percent of revenue
- 32% Salary + incentive compensation

% of revenue expected

- <30%: 32%
- 30%-39%: 22%
- 40%-49%: 18%
- 50%-59%: 10%
- 60%-69%: 6%
- >70%: 3%

82% of FAs expect to receive over 50% of revenues
Broker Protocol: Perspectives
Almost half of advisors currently work for firms that are operating under Broker Protocol

Q: Are you part of a firm that is under Broker Protocol?
(n = 152)
Widespread uncertainty about how Broker Protocol will impact future advisor industry movement

Perceived impact of Broker Protocol on advisor movement

- Speed up / increase: 16%
- No impact: 9%
- Slow down / decrease: 9%
- Other / don't know / not familiar: 66%

Q: Can you share any additional feedback on how you think Broker Protocol may impact advisor movement?
(Unaided write-in – data is subjectively coded to highlight key themes)
(n = 152)
Broker Protocol has had largely neutral impact on the move to independence

Q: Have the changes to Broker Protocol decreased or increased your interest in going independent?
Q: Have the changes to Broker Protocol accelerated or slowed down the timing of your plans to go independent?

(n = 152)
Methodology

- Schwab designed the Spectrum of Advisor Independence Study to capture insights on factors that are top of mind for financial advisors who have considered becoming independent RIAs.

- Fielded from April to May 2018, the study contains self-reported data from 152 qualified US financial advisors that previously indicated consideration for moving to an independent RIA firm.

- Respondents include only wirehouses, regionals, banks, independent and insurance broker-dealers – existing independent or hybrid/dually registered RIAs did not qualify.

Firm demographics

<table>
<thead>
<tr>
<th>Total amount of assets under management</th>
<th>Total Sample</th>
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<tbody>
<tr>
<td>Less than $10M</td>
<td>8%</td>
</tr>
<tr>
<td>$10M to less than $25M</td>
<td>16%</td>
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<td>$25M to less than $50M</td>
<td>22%</td>
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<td>$50M to less than $100M</td>
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<tr>
<td>$500M to less than $750M</td>
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</tr>
<tr>
<td>$750M to less than $1B</td>
<td>1%</td>
</tr>
<tr>
<td>$1B+</td>
<td>2%</td>
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<table>
<thead>
<tr>
<th>Percentage of current AUM that is fee-based</th>
<th>Total Sample</th>
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<tbody>
<tr>
<td>90 - 100%</td>
<td>9%</td>
</tr>
<tr>
<td>80 - 89%</td>
<td>10%</td>
</tr>
<tr>
<td>70 - 79%</td>
<td>17%</td>
</tr>
<tr>
<td>60 - 69%</td>
<td>23%</td>
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<tr>
<td>&lt; 60%</td>
<td>41%</td>
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