Transitioning to Fees
AN INVESTMENT PROFESSIONAL'S GUIDE

Our partners in developing this guidebook:
GDC Research and Best Practice Research
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**Introduction**

In today’s marketplace, being a fee-based advisor is shifting from a competitive advantage to a competitive necessity driven by the demand for advice, the impending boomer wave, and the expanded role of the advisor. By 2015, 75% of advisors will have transitioned to fee-based compensation or be in the process of transition.¹

The competitive pressure to become a fee-based advisor has never been higher or more critical. And while transitioning requires change, the benefits to the advisor clearly outweigh the challenges. The current evolution of advisory platforms and tremendous support in the marketplace will make transitioning to fees an easier process.

The key to becoming a successful fee-based advisor is in crafting a transition plan. This guide will provide advisors with a roadmap for becoming a fee-based advisor and aid them in building a transition plan.

**Fee-Based Benefits**

The adoption of fee-based pricing has been a positive trend for the advisor and client. The advisor’s clients benefit from increased objectivity with regard to investment recommendations, and from the ongoing advice provided. In addition to client benefits, fee-based pricing can help advisors create a more productive and profitable practice by growing assets under management and allowing the ability to serve wealthier clients.

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1 Source: GDC Research, 2008
> **Client Interest.** Fee-based pricing aligns the advisor’s interests with their clients’. If client assets grow, advisor compensation increases, and, conversely, if assets decline, so does the advisor’s revenue.

> **Objectivity.** Because the advisor is compensated based on the amount of their client’s assets, they can be unbiased in their use of investment products.

> **Predictable Revenues.** Fee-based pricing provides an ongoing revenue stream that typically provides the advisor with more stable income.

> **Client Retention.** Fee-based advisors provide ongoing investment advice as a component of their fee, which means spending more time with clients. The results are deeper client relationships, improved client satisfaction, and higher client retention.

> **Client Wallet Share.** Advisory relationships can translate into capturing more client wallet share through increased trust and the ability to provide broader services.

> **Valuation.** Fee-based practices are more attractive to acquire—leading to a higher multiple for selling a practice and/or creating a succession plan.

The benefits to fee-based pricing are clear, but transitioning requires planning to maximize results and overcome challenges.

### Overcoming Perceived Challenges

When advisors evaluate whether fee-based business is the right fit for their practice, they are often their own worst enemy. Change is always disconcerting; and a transition to fees requires advisors to reevaluate their own understanding of how and where they add value in their client relationships, as well as how they get paid.

However, most of the particular concerns and objections advisors mention when asked why they have not established any fee-based relationships have been proved invalid by the experience of those who have made the transition.

“It’s not the right time.”

In the wake of the extraordinary market turmoil that has unnerved advisors and their clients alike, some advisors argue that this is not the right time to introduce a new pricing scheme to their clients. Will clients be more sensitive to issues of cost in this environment; will it be difficult to justify fees? These concerns are rooted more in advisors’ unease with the transparency of fees and their own value proposition than in the reality of client price sensitivity.

In a fee-based relationship, clients typically see the fees they are paying as line-item deductions from their accounts on a quarterly basis. Few advisors are seriously challenged to justify their fees in volatile markets; those who do get challenged have led their clients to believe that their value is derived solely from their investment performance—a losing proposition. Successful fee-based advisors make it clear that the value they deliver is not recommending products but providing ongoing advice.
“I’m too busy to do all that work.”

Busy advisors frequently fail to make changes in their practice that would yield long-term benefits because things seem to run “well enough” and their attention is focused on immediate needs, rather than on strategic objectives. Every advisor has come away from at least one conference with a handful of ideas that they are itching to implement in their business—only to abandon them when distracted by the day-to-day operational needs of their practice.

While advisors may initially fear that a transition to fees will be too distracting or time-consuming, the experience of those who have already made the transition contradicts these concerns. Most advisors find that much of the work involved in the transition can be spread out over a period of six months or more, with relatively little interruption to their business. With a strong plan and structure in place the transition itself will be smooth and rapid.

“What will my clients say?”

Advisors may worry that:

> Clients will be suspicious of motives, and potentially move their account
> Clients will feel they are being charged twice for the same advice
> Clients are resistant to any form of change

These fears are almost always unfounded. Those who have transitioned to fees commonly find that they only lost a handful of price-shopping clients who were always detracting from, rather than adding value to, their business. By preparing a thoughtful explanation of why they are now charging fees, advisors can approach their clients with confidence.

“I’m not prepared to manage fee-based relationships.”

Some advisors fear that they lack the knowledge and skills to manage fee-based accounts and relationships centered on ongoing advice. They may lack familiarity with some of the offerings available to them, such as separately managed accounts (SMAs), or find tasks such as rebalancing daunting. Others are concerned that they will run out of ways to add value and justify their ongoing fees.

Fee-based asset management can be as complex or simple as an advisor chooses to make it. Broker-dealers, third-party advisory program managers such as Brinker or Lockwood, and investment managers that offer SMAs, all provide training on the specifics of products and platforms. Advisors also typically have a range of advisory programs available to match their comfort level and the amount of time they are willing to commit to account management. For example, most firms provide a program that uses a set menu of mutual funds and asset allocation models, along with automated rebalancing, to simplify the management process.
“I’m too old.”

Advisors have successfully converted commission-based accounts to fee-based practices when they are well into their sixties. Advisors can begin converting a business from commissions to fees at any age—and for older advisors, age is often an added incentive. Sales data has consistently demonstrated that fee-based practices command higher valuations than commission-based practices. For those nearing retirement, the best way to maximize the value of the business is to create a strong recurring revenue base that makes it attractive for a buyer. Additionally, fee-based revenues provide a solid revenue stream to support a junior advisor who can take on an increasing share of the work, as well as earn-out payments for the senior advisor.

“Won’t I lose money?”

The fear of lost revenue is both understandable and not without some justification. Without planning, an advisor may experience a revenue shortfall during a transition. However, by avoiding common mistakes, outlined below, advisors can proceed, knowing with some degree of certainty what their revenues will be and limiting any short-term economic impact on their practice. Furthermore, over the course of a client relationship, a fee-based account will deliver far more revenue to an advisor’s practice than a commission-based account.

Creating a Transition Plan

Transitioning from brokerage to advisory can be daunting for advisors because there are so many unknowns. Without a solid understanding of what is required and how to start, some advisors are frozen by uncertainty and their perceptions of the challenges posed by a transition.

The key to a successful transition from brokerage to advisory is to have a solid plan in place before opening the first advisory account. This requires a blend of both strategy—to guide the transformation of the advisor’s practice—and tactics—to provide the roadmap for the functional elements of the transition. With the right planning, advisors can eliminate uncertainty and have the confidence they need to move forward with their transition.

A good transition plan contains four elements or steps:

1. Business analysis
2. Client review
3. Establishing a framework for advisory services
4. Financial preparation
Step One: Business Analysis

Transitioning from brokerage to advisory requires a change not only in how an advisor is paid, but also in the way they establish their value. Whether they are prepared for it or not, most advisors find that adopting fee-based pricing draws them deeper into their client relationships and exposes them to a broader range of questions and business opportunities. The time period prior to the transition is a perfect opportunity for an advisor to devote some thought to developing a vision for their business.

Many mid-career advisors, until now focused on building a viable client base, have not considered how they want to position themselves and their services. As they begin spending more time with their clients and addressing a broader range of questions and needs, advisors must decide what advice and services they intend to offer. An advisor who does not set client expectations will find that the client sets their own—and these may be hard for the advisor to meet.

Thus, in step one, advisors should decide on the advice focus of their practice. Advisors tend to either delve deeply into asset management—sometimes building portfolios of individual securities themselves—or holistic planning—covering a broad range of financial planning needs with each client. The spectrum simply illustrates how business may be categorized:

### Advice Spectrum

<table>
<thead>
<tr>
<th>Investment Manager</th>
<th>Investment Planner</th>
<th>Financial Planner</th>
<th>Life Planner</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investment-Centric</strong></td>
<td>- Creates stock/bond portfolios for clients and focuses on managing assets</td>
<td>- Use mutual funds, SMAs, and alternative investments to build client portfolios</td>
<td>- Provides comprehensive advice; completes financial plans for most clients</td>
</tr>
<tr>
<td>- Does not offer planning services</td>
<td>- Offers event-driven planning advice</td>
<td>- Mostly uses mutual funds and SMAs</td>
<td>- May use more turnkey asset management programs to focus time on clients</td>
</tr>
<tr>
<td><strong>Relationship-Centric</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Limited personal capacity drives advisors to specialize their business model, thereby maximizing their strengths. The choice of business model can have important consequences on growth rate, profitability, and productivity:

> The more complex the portfolios an advisor builds, the more time will be spent on research, model maintenance, and rebalancing. These tasks account for 17% of the average advisor’s working hours. For those who delve deeply into asset management, the tally will be higher.

> Time devoted to asset management or financial planning is time that cannot be spent meeting with existing clients and developing new relationships. Advisors need to carefully consider where they add the most value in their client relationships, and what sort of activities drive revenues in their practice.

> Investment management-focused businesses sometimes struggle with new client acquisition. They may lose existing clients to more holistic advisors.

> Completely outsourcing asset management to turnkey providers is not an ideal option for advisors who wish to work with affluent clients. However, devoting a large amount of time to investment management will inevitably limit the ability to meet clients’ other needs and to uncover cross-selling opportunities.
Once advisors have settled on a business model, they must consider how they can realize the changes they have mapped out, taking into account capacity limits.

Advisors must ask:

> “Can I do this myself?” If this is a new task or discipline, does the advisor have the professional knowledge required? If not, can it be outsourced, or do they need to hire additional staff to meet this need?

> “Do I need to hire staff?” While not all advisors hire staff right away, most do so within a few years. Advisors who wish to aggressively expand their services or meet with clients must delegate an increasing number of functions. Many advisors make the mistake of considering whether they can hire a new employee with their existing revenues. A new hire invariably drives revenue growth; even if some sacrifice is required in the short term, expanding staff always pays off.

> “Should I do this myself?” Not every task in a business drives revenue. Updating account records, preparing reports for client reviews, and scheduling appointments are examples of tasks that should be delegated. An advisor’s goal should be to focus on revenue-generating activities as much as possible.

> “What can I outsource?” Many firms offer outsourcing services; for example, some will complete financial plans for advisors for a fee; registered investment advisors (RIAs) may outsource client reporting work, and all advisors have the option of outsourcing asset management to Turnkey Asset Management Programs (TAMPs) or to asset allocation mutual funds.

> “How much can I personally handle?” No advisor can have a close relationship with more than 100 or so clients. This does not mean they cannot have more than 100 clients, but rather that they must consider less intensive ways to service smaller clients, such as a TAMP or asset allocation mutual funds.

> “What do I need to learn?” If advisors plan to expand their advice services to include financial planning, they should consider obtaining a Certified Financial Planner (CFP) designation. Some advisors never obtain the designation, but produce complete or modular plans using software (such as NaviPlan) which takes time to learn. Some advisors will outsource or hire individuals with the requisite knowledge and experience to fill certain knowledge gaps.
“Do I need new tools and technology?” Most advisors find that they need a few basic tools including resources to evaluate investment products and create asset allocation models (i.e., Morningstar®), a financial planning software package (i.e., NaviPlan), and portfolio management software (i.e., Advent Axys®).

What Market Will I Serve?

A review and segmentation of their current client base should help advisors understand who they currently serve and will drive strategy for providing relevant solutions. Tailoring the service offering to the client is critical because advisors sometimes invest too much time and resources in delivering a service (e.g., customized individual stock portfolios) for a client who has more important needs, such as retirement income planning.

Clients fall into:

> Mass Affluent Market: $100,000 to $499,999 investable assets
> Emerging Affluent Market: $500,000 to $999,999 investable assets
> High-Net-Worth Market: more than $1 million in investable assets

Mass affluent market and emerging affluent market clients will not have substantial legacy wealth; their primary challenges will be planning for college expenditures for children and their own retirement savings. Mutual fund and unified managed account (UMA) advisory programs meet the investment needs of most of these clients, who do not require highly customized portfolios. This market benefits from basic financial planning services; cash flow planning figures prominently among their needs.

To move up-market and attract wealthier clients, advisors must weigh the needs of prospective clients against current clients. It may be necessary to build two different advice offerings: one that offers more customization and advanced planning for wealthier clients, and one that leverages TAMPs and basic planning tools for their less affluent clients to limit the effort required to serve them well.

<table>
<thead>
<tr>
<th>Affluence Segments by Investable Assets (excluding 401(k) assets)²</th>
<th>Value</th>
<th>Total Households</th>
<th>Percent of Population</th>
<th>Percent of Total U.S. Wealth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mass Affluent: Lower Mainstream</td>
<td>Less than $50,000</td>
<td>71 million</td>
<td>63.50%</td>
<td>3.3%</td>
</tr>
<tr>
<td>Upper Mainstream</td>
<td>$50,000 – $99,999</td>
<td>11 million</td>
<td>10.00%</td>
<td>3.8%</td>
</tr>
<tr>
<td>Emerging Affluent: Middle Market</td>
<td>$100,000 – $499,999</td>
<td>21 million</td>
<td>19.00%</td>
<td>22.4%</td>
</tr>
<tr>
<td>Emerging Market</td>
<td>$500,000 – $999,999</td>
<td>5 million</td>
<td>4.40%</td>
<td>16.4%</td>
</tr>
<tr>
<td>High-Net-Worth: Lower Affluent</td>
<td>$1 million – $2.5 million</td>
<td>2.5 million</td>
<td>2.20%</td>
<td>17.9%</td>
</tr>
<tr>
<td>Affluent Market</td>
<td>$2.5 million – $10 million</td>
<td>1 million</td>
<td>0.90%</td>
<td>20.6%</td>
</tr>
<tr>
<td>Ultra High-Net-Worth</td>
<td>$10 million and above</td>
<td>150,000</td>
<td>0.13%</td>
<td>15.6%</td>
</tr>
</tbody>
</table>

² Source: GDC Research
Step Two: Client Review

Which Clients, Which Accounts?

Not every client or account can or should be transitioned; advisors should first eliminate those accounts/clients that are ineligible due to compliance reasons or because they are not appropriate for the level of ongoing service proposed.

Compliance exclusions are relatively straightforward (check with your individual firm):

> **Existing B & C Share Mutual Funds.** Class B shares that have not yet converted to Class A shares may be ineligible for advisory accounts due to their deferred sales loads. The regulators’ assumption is that advisory accounts will be actively managed, and that investments will be bought and sold as a consequence. Funds with a sales charge are not eligible for advisory accounts because the client would pay twice. Class C shares are ineligible for the same reason—advisors cannot collect both an advisory fee and a 1% trail on the same account.

> **Variable Annuities.** Annuities often cannot be transferred to an advisory account because their compensation and sales load structures are incompatible with advisory account guidelines. A few firms do offer no-load annuities within their advisory programs, but even these generally prohibit the transfer of existing annuity positions.

> **Low-Basis, Concentrated Stock Positions.** If a client has low cost-basis stock or a large position in restricted stock that they do not wish to sell, cannot afford to sell for tax reasons, or cannot sell due to restrictions, the position usually must be excluded from an advisory account. Again, if the advisor cannot manage the position, regulators will object to the client paying a fee on the assets. The exception is if the plan is to gradually liquidate the position.

> **Non-Traded Real Estate Investment Trusts (REITs) and Managed Futures.** Most non-traded REITs and managed futures funds are ineligible for advisory accounts due to pricing structure issues. A few products have been restructured to suit advisory programs and are making inroads, but advisors should not assume that these assets will be eligible to transition to an advisory program.

> **Advisory Platform Investment Mapping.** Mapping means that the same mutual fund, such as XYZ Fund A-share and XYZ Fund no-load, are offered on both the brokerage and advisory platforms; if an exact map of client investment is not possible, advisors will need to evaluate comparable substitutes that fall within the same style box.

A transition from brokerage to advisory fees also presents a good opportunity to reevaluate client relationships. There may be clients with whom an advisor would rather not have a deeper relationship. Most advisors have a few clients who they try to avoid; it is better to avoid transitioning such clients to advisory accounts. The drain on the energy of the advisor and their staff far outweighs the benefits of the incremental revenue they produce.

Client Segmentation

The second step of the client review process is the creation of a client segmentation model, which will serve as the basis for determining levels of service. It is important to align the cost of service with the potential revenues from each client relationship, or advisors may find themselves losing money on smaller clients.

Client segmentation models are not universal: each advisor must develop one suited to his or her practice. The following steps provide a basic structure:
1. Determine the primary driver of the model.

- Total investable assets of each client/household: this number reflects the total immediate business opportunity associated with each relationship.
- Net worth: this is best restricted to advisors who work with a large number of business owners with a small investable asset base relative to the value they have created in their business.

Client segmentation methodology should not be rigid; a client in a lower investable assets or net worth tier may receive “A” tier service because they are a top source of referrals. Similarly, adult children and other family members of an “A” client may be given premier service levels, as they are seen as part of the “legacy.”

2. Create the initial client segment groups. Most advisors create four segments, often labeled A, B, C, and D, in order of value from highest (A) to lowest (D). Clients are divided among these segments based on how the advisor intends to serve each. For example, an advisor will not place as many clients in the “A” segment as in the “D” segment because they want to keep the number of “A” clients relatively small so that they can deliver the highest level of service to this group. “A” clients should never account for more than 10 to 20% of an advisor’s total clients.

3. Develop a basic client service model. The number of touch points with “A” clients should far exceed those for “D” clients.

<table>
<thead>
<tr>
<th>Client Tier</th>
<th>Meetings</th>
<th>Phone Calls</th>
<th>Emails</th>
<th>Client Appreciation</th>
<th>Newsletter</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Quarterly</td>
<td>Monthly</td>
<td>Weekly</td>
<td>Semi-annual events</td>
<td>Monthly</td>
</tr>
<tr>
<td>B</td>
<td>Semi-annually</td>
<td>Quarterly</td>
<td>Monthly</td>
<td>Annual event</td>
<td>Monthly</td>
</tr>
<tr>
<td>C</td>
<td>Annually</td>
<td>Semi-annually</td>
<td>Monthly</td>
<td>N/A</td>
<td>Monthly</td>
</tr>
<tr>
<td>D</td>
<td>On request</td>
<td>Annually</td>
<td>Monthly</td>
<td>N/A</td>
<td>Monthly</td>
</tr>
</tbody>
</table>

After determining the level of service for each tier, advisors should reevaluate whether their commitments are feasible in light of their limited personal capacity or whether they can outsource some functions to staff. For example, the average advisor devotes 22% of his or her time to client meetings, or about 420 hours per year. Assuming that client meetings run an average of one hour and phone calls 30 minutes, an advisor with 100 total clients might find the following results from this exercise:

<table>
<thead>
<tr>
<th>Client Segment</th>
<th>Number of Clients</th>
<th>Number of Meetings/Year</th>
<th>Number of Calls</th>
<th>Total Meeting/ Phone Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>10</td>
<td>4</td>
<td>12</td>
<td>100</td>
</tr>
<tr>
<td>B</td>
<td>30</td>
<td>2</td>
<td>4</td>
<td>120</td>
</tr>
<tr>
<td>C</td>
<td>40</td>
<td>1</td>
<td>2</td>
<td>80</td>
</tr>
<tr>
<td>D</td>
<td>20</td>
<td>0</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>140</td>
<td>340</td>
<td>310 Hours</td>
</tr>
</tbody>
</table>

In this case, the advisor should not be challenged to meet the service client needs, and has enough capacity to manage the inevitable unplanned meetings and calls.
Step Three: Establishing a Framework for Advisory Services

Next, advisors should develop a framework for delivering investment and non-investment advice to their clients. This includes determining the nature and extent of advice services to be provided, selecting the advisory programs that best meet client needs, and developing a workable investment process.

Services to Be Offered

Advisors must decide what services they offer to evaluate the implications for the platforms and fee structures they may use. Most advisors’ core advice service is fee-based asset management. Others will also provide comprehensive financial planning and event-driven advice. Both choices will have implications for affiliation model choices, which are examined in greater detail later in this section.

Initially, advisors should evaluate the question of which services they intend to offer in the context of their client base and the clients they wish to attract. The results of the business analysis process should provide some helpful information on the advisor’s core client base that can inform decisions about investment and planning services.

Financial planning and ongoing investment management are critical for clients of all levels of affluence; but the degree of customization and the complexity of the solutions offered should vary based on the core wealth market the advisor serves. With respect to investment management services, advisors should consider how critical tax loss creation, customization, and alternative investments are to their clients.

Clients with more than $1 million in investable assets are more likely to require advisory programs that address these needs, but advisors serving less affluent clients would be better served by simpler platforms that require less manual effort. With respect to financial planning, advanced planning solutions, such as Grantor Retained Annuity Trusts (GRATs) and Net Income Make-Up Charitable Remainder Unitrusts (NIMCRUTs) are generally suited only to more affluent clients. Most clients are best served with basic planning services that target current and future cash flow needs, as relatively few will have substantial legacy wealth requiring complicated tax shelters.

Investment Product and Investment Policy Preferences

After considering how their clients’ wealth demographics affect their investment management and financial planning needs, advisors should give thought to how they intend to implement investment management strategies to meet these needs.

The products an advisor currently uses are a good starting point. For example, mutual funds figure prominently in most commission-based advisors’ client portfolios, as may individual stock issues. Next, advisors may evaluate whether their current or target wealth demographics needs are fully being met by the products they currently use. If not, transitioning to advisory programs is a good opportunity to realign product solutions. For example, an advisor who is moving up-market, but has always used mutual funds, may find that SMAs and UMAs provide more benefits to their wealthier clients than mutual fund advisory programs. Finally, advisors should consider how the products they would like to use will work within advisory programs.
Managing individual security portfolios for a fee on a discretionary basis is more challenging than in a brokerage account. Beyond the suitability of the stock or bond itself, regulators will examine whether the positions are managed actively and to the benefit of the client. Advisors may find that, while they like their clients to hold individual stocks and bonds, it is easier to outsource the management of the portfolios to an institutional money manager via an SMA.

Advisors should also give some thought to the way they would like to manage money in an advisory account. Some may prefer highly concentrated portfolios that, while potentially beneficial to a client, might run afoul of broker-dealer compliance guidelines. Others may wish to use a security type that is not accommodated by their broker-dealer’s advisory programs or those offered by TAMPs available through their firm. In these cases, advisors may need to reevaluate whether these preferences are critical to their ability to serve their clients well.

**Optimal Affiliation Model**

With an understanding of what planning and investment services are to be offered and the types of securities and investment disciplines that may be used, advisors can determine what affiliation model best suits their needs. The majority of advisors can operate comfortably under their firm’s RIA, using advisory programs provided by the broker-dealer, its clearing firm, or TAMPs. Advisors should always check to see whether their firm can accommodate their goals under its corporate RIA before expending time and money establishing their own independent RIA.

However, there are two instances in which advisors may want, or need, to have their own RIA: if the advisor wants the flexibility to charge for financial planning and advice fees or if the advisor is committed to an investment practice or product that cannot be accommodated under advisory programs available through the broker-dealer.

Advisors who provide planning or ad hoc advice services frequently choose to treat these services as a loss leader, telling their clients that the fees they pay on their advisory accounts cover all services provided, including planning. The growing number of advisors who wish to charge for planning and situational advice must do so under either their own RIA or as an investment advisor representative (IAR) of their broker-dealer.

While not all broker-dealers offer the option of charging financial planning or hourly advice fees under their RIA, some do so—or are willing to do so—if approached by an advisor. In exchange for leveraging the broker-dealer’s RIA, advisors must submit plans for review by the home office and generally pay a standard override on the gross fees they generate. Advisors often establish their own RIA because their broker-dealer does not allow fee-for-plan or hourly fees under its RIA, either because the broker-dealer will not support the planning software they use or because they wish to capture 100% of planning revenues.

Asset management-focused advisors may also find that their activities fall outside the boundaries of what is permitted under a broker-dealer’s RIA. This is most common in the case of advisors who manage portfolios of individual securities on a discretionary basis for a fee. A relatively small number of large firms provide programs that allow advisors to conduct this business under the broker-dealer’s umbrella; but even these impose qualifying standards on the participating advisors. Advisors may also look to establish their own RIA if their asset management style runs afoul of compliance rules due to concentrated positions or unusual asset allocation models. In both cases, the advisor may only need to manage a portion of their assets under their own RIA—their broker-dealer and TAMPs will still provide the best solutions for smaller advisory accounts (in the form of turnkey programs) and commission-based business.
Choosing the Right Advisory Programs

Advisors often have a choice, not only of types of platforms (i.e., mutual funds, SMAs), but also of providers. They may access advisory programs offered by their broker-dealer that are often customized for the firm and provide more choice for the advisor. Broker-dealers typically have, or can make available, a broad range of platforms that allow advisors to meet their investment management needs while remaining under the firm’s corporate RIA.

Advisors may also find that their firm allows them to access one or more TAMPs available from such third parties as Genworth and Lockwood. These programs also cover a range of underlying product types and may even offer hedging strategies. Generally, it is preferable, if at all possible, to use programs offered through the broker-dealer, since it is easier with respect to both compliance and reporting. Advisors are more likely to succeed in delivering consolidated statements and account reports to their clients if all accounts are held at their firm.

Selection of an advisory program is also dependent on the account size. Broker-dealers and regulators place greater scrutiny on smaller client accounts because an advisory solution could be perceived as too expensive for the client. In addition, smaller accounts may not have enough assets to create proper diversification, such as in a separate account program that has high minimums. Firms and TAMPs are addressing this concern by offering lower cost and hard-coded advisory solutions to accommodate small accounts. Otherwise, a brokerage solution and commissions may be more suitable for smaller clients.

With respect to available advisory program types, the rapid proliferation of advisory programs over the past five to ten years has created a broad menu of options for advisors, ranging from simple, centrally managed programs to hands-on, discretionary asset management. Advisory programs are most often segmented first by the underlying investment vehicle, then by the degree of discretion exercised by the financial advisor. The most common types of programs include mutual fund advisory, SMAs, UMAs, and rep-as-portfolio manager. Most broker-dealers will offer more than one program type; but it is common for firms to exclude one program type or to limit advisor discretion on those programs that are inherently risky.
Mutual fund advisory programs, often referred to as mutual fund wraps, are the traditional programs for most advisors outside the major wirehouses. For advisors who primarily serve a middle market clientele, these programs offer simplicity, familiar underlying products, low account minimums, and control options that range from central management to open architecture. Most firms offer both a turnkey, centrally managed mutual fund advisory program that frees the advisor from virtually every decision but the choice of asset allocation model, and an open platform that allows advisors to choose from a broad range of mutual funds and set their own asset allocation parameters.

SMA programs offer advisors the opportunity to seek out boutique managers with unique styles and to access these managers’ best picks in relatively concentrated portfolios. Importantly for wealthy clients, SMAs allow clients to hold individual stock and bond issues in their own accounts. This allows for customization around existing positions the client may have, active tax management, and, in some cases, the use of socially responsible screening. They also offer a range of options with respect to central management versus open architecture. Multi-style accounts (MSAs) provide advisors with a fully diversified portfolio of SMA managers within one account, and relieve them of the responsibility of rebalancing. Open-architecture SMA programs provide advisors with, in some cases, the choice of one hundred or more products, allowing them to allocate assets to multiple managers just as they would with mutual funds.

The future of separately managed accounts in the retail market rests on the UMA. UMAs blend SMAs with one or more other investment products, most often mutual funds. By providing advisors with a single account solution for multiple product types, UMAs simplify pricing, statements, and account management. Mixing SMAs with other types of investment vehicles also allows smaller clients to use separate accounts for part of their portfolio, while completing their asset allocation with lower-minimum vehicles such as mutual funds or exchange-traded funds (ETFs). UMAs also tend to offer overlay portfolio management—a service that provides a single point of entry for customization requests, active tax management, and cash management by centralizing the trading functions formerly conducted by the SMA money managers individually. This simplifies the process of managing SMA portfolios and allows the advisor to easily leverage the key benefits of SMAs.

The relatively small number of advisors who make extensive use of individual securities in their clients’ portfolios tend to gravitate toward rep-as-portfolio manager programs when they transition to advisory. Wirehouse firms and a small number of regional, full-service broker-dealers dominate this sector of the advisory market because of their traditional emphasis on the sale of individual stock and bond issues and their strong, captive, research resources.

In a rep-as-portfolio manager program, the advisor manages portfolios of stocks and bonds for the client on a discretionary basis, just as a mutual fund or institutional money manager would. They typically build their own model portfolios, working either from a limited list of securities approved by their firm or a completely open platform, depending upon their experience or whether they have met qualifying standards established by their firm. Rep-as-portfolio manager programs offer the cachet of customization and allow the advisor maximum control over tax consequences, both of which are attractive features to advisors working with wealthier clients. They are not for most advisors, however, and the work required to maintain model portfolios and monitor securities is best suited to large practices working exclusively with affluent clients.
<table>
<thead>
<tr>
<th>Program Type</th>
<th>Features</th>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
</table>
| Separately Managed Account   | > Client holds individual securities in institutional-style accounts  
> Active tax management  
> Portfolio customization  
> Multiple components to fee | > Appeals to affluent clients  
> Tax management may create tax losses for client  
> Customization can help client hold on to concentrated stock | > Few advisors take advantage of customization and tax management options  
> Advisors may struggle with fee transparency  
> Diversification difficult for less than $500,000  
> Rebalancing is complex |
| SMA                          | > Either mutual funds or ETFs used as investment vehicle  
> Single fee covers most, if not all, costs  
> May offer automated rebalancing, asset allocation models, and product selection | > Simple; leverages familiar products  
> Lends itself to a high level of automation  
> Client can often transfer in existing assets  
> Can range from centrally managed to open architecture | > For large accounts, SMAs may be more cost effective  
> Mutual funds limit advisor’s ability to control tax consequences |
| Mutual Fund/ETF Advisory     | > The advisor manages individual security portfolios for the client on a discretionary basis  
> May have a limited or open menu of securities to choose from  
> The advisor creates model portfolios | > Appeals to affluent clients; offers boutique feel  
> Allows for maximum control of tax consequences  
> Limitless customization options to meet investment planning needs | > Requires the greatest time commitment of any program type  
> Impacts an advisor’s face time with clients and prospects  
> Asset management-focused advisors may be weak in critical affluent financial planning skills |
| Rep-As-Portfolio Manager     | > Multiple security types (usually SMAs, mutual funds, and one or more other products) offered in one account  
> Overlay portfolio management  
> Consolidated reporting across all security types in account | > Addresses difficulties in bringing SMAs down market to smaller accounts  
> Overlay management simplifies customization, tax management, and cash flow transactions  
> Eliminates the need for multiple accounts and statements if the advisor wishes to use multiple product types | > First-generation programs may have limited product options  
> Marquee SMA managers are not always willing to participate in these programs |
| Unified Managed Account      | > Multiple security types (usually SMAs, mutual funds, and one or more other products) offered in one account  
> Overlay portfolio management  
> Consolidated reporting across all security types in account | > Addresses difficulties in bringing SMAs down market to smaller accounts  
> Overlay management simplifies customization, tax management, and cash flow transactions  
> Eliminates the need for multiple accounts and statements if the advisor wishes to use multiple product types | > First-generation programs may have limited product options  
> Marquee SMA managers are not always willing to participate in these programs |

**Control versus Automation**

Beyond the type of program they wish to use, advisors usually have options with respect to the degree of control they want to have over various aspects of the investment management process. There is no superior strategy with respect to control over the investment process—it is primarily a question of opportunity cost. Some advisors prefer to manage the review and selection of products, asset allocation design, and rebalancing of all their advisory accounts because they believe their process adds value to the client. Others prefer to use very packaged offerings that allow them to outsource some or most of these tasks to the program sponsor, so they can spend more time working on other planning issues with the client or developing new business.
While advisors will differ in their attitudes toward customization and control, all can, and should, benefit from a higher degree of automation at the low end of their client base. “D” clients (and, perhaps, most “C” clients for some advisors) generally do not warrant advisor-guided portfolios and higher degrees of customization. Breakeven analyses have often found that advisors who use completely open architecture programs for all of their advisory clients are crushed under the weight of rebalancing and managing small accounts. Often, these advisors are losing as much as $200 to $600 per year on each of these clients because the revenue contribution from their advisory fees cannot offset the work required to maintain their accounts. Regardless of the advisor’s attitude toward control and personal beliefs on investment process, it is better to cede control of the mechanics of small account management to turnkey programs that allow the advisor to leverage the scale of the program sponsor to manage small accounts. With minimums lower than $20,000 in some cases, these programs offer a good solution for the bottom tier of an advisor’s book.

Leveraging a Range of Solutions

Many seasoned, fee-based advisors are guilty of relying solely on one advisory program to serve their clients. If all their clients were of the same affluence and had the same needs, this would not present a problem—but that is seldom the case. The broad range of programs exists because each offers features and benefits suitable to a different wealth market.

Advisors should consider which of the platforms they will leverage, taking into account how they will apply them to accounts of different sizes or to clients with different needs. Most advisors now have a set approach to platform selection based on investable asset thresholds. Accounts below $100,000 in value may be transitioned to a turnkey mutual fund advisory program, whereas those above $750,000 may warrant a UMA. While the thresholds and platforms will differ from advisor to advisor, it is recommended that advisors make use of more than one platform to allow for some differentiation in the level of investment service they provide their clients. This enhances their competitive positioning and allows them to deliver better service to their more affluent clients.

Investment Process Design

Advisors who work with open-architecture programs typically have a great deal of choice in the products they use and in the construction of asset allocation models. This choice can quickly get out of hand, leading to multiple iterations of core asset allocation models and wildly different holdings in accounts with the same investment objective. Customization should be thought of as the choices an advisor makes for clients who have similar goals, not tailoring each advisory account for the client. Efficient, fee-based advisors cross-reference their asset allocation models and holdings. They generally have no more than six asset allocation models to cover a range from very conservative to aggressive. In addition, clients with the same asset allocation model will have the same holdings in the same proportion. These are critical elements of a solid investment process as they enable the advisor to rebalance portfolios with relative ease.
Rebalancing should also be cautiously approached, particularly while the advisor is transitioning to advisory fees. While accounts will get slightly out of tune each month, sometimes each week, rebalancing can create tax consequences for the client—as well as quite a bit of work for the advisor. Most advisors have set tolerance bands for rebalancing—measurements of the deviation of any part of the account from the model portfolio weightings—and will not rebalance portfolios unless one or more sleeves of the asset allocation model exceed these tolerance bands at a set checkpoint (e.g., quarter or year end).

Access to Investment Tools

Advisors can leverage a variety of tools to assist with asset allocation, product and investment selections, rebalancing, and tax management. Depending on the platform, these tools are bundled into the advisory program or offered as an additional broker-dealer or third-party service. Firms have been expanding their in-house research and asset allocation capabilities and offer access to third-party research and tools, such as Morningstar® and Standard & Poor’s®. Advisors can also access third parties for portfolio management solutions, such as Advent and Black Diamond. Tax management tools are often integrated into advisory platforms, as is often the case with UMAs, or can be employed with an advisory program for an additional fee.

Step Four: Financial Preparation

The final step in developing a transition plan is preparing for the changes in the way revenue will flow through the advisor’s business. Financial preparation includes setting fees, determining the proper conversion rate and fee/commission mix, and setting a timeline for the transition. This part of the planning process is critical because it provides advisors with the confidence they need to proceed with their transition.
Setting Fee Levels

Establishing fee levels is a good place to start the financial preparation process, because an advisor’s fees will impact their revenue projects and, potentially, their transition timeline. Advisors should take into account several factors when establishing their fees: median fees among their competitors, the value of their own time, and the services they intend to provide.

Broker-dealers and TAMPs can be good resources when it comes time to establishing advisory fee levels. Often, these business partners can provide the advisor with up-to-date data on average fees charged in various advisory programs. Some will even offer this data for specific account size ranges. Benchmarking one’s own fees to those of one’s peers is an important exercise, as it helps the advisor establish confidence that their proposed fees are within reason. Advisors who intend to focus on investment management and will not offer substantial planning services should generally price near the average. Those who plan to offer comprehensive financial planning should price 10-20 basis points above the average or else consider charging separate fees for planning services. Fees should also differ based on account size: charging all clients the same advisory fee rate provides a service discount to smaller clients, while over-charging larger clients. Most advisors develop a fee schedule that might resemble the following for a mutual fund advisory program:

<table>
<thead>
<tr>
<th>Account Size</th>
<th>Advisory Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>$25,000 to $99,999</td>
<td>1.40%</td>
</tr>
<tr>
<td>$100,000 to $249,999</td>
<td>1.25%</td>
</tr>
<tr>
<td>$250,000 to $500,000</td>
<td>1.10%</td>
</tr>
<tr>
<td>$500,000 to $750,000</td>
<td>1.00%</td>
</tr>
<tr>
<td>$750,000 to $1,000,000</td>
<td>0.85%</td>
</tr>
<tr>
<td>$1,000,000 to $3,000,000</td>
<td>0.65%</td>
</tr>
<tr>
<td>More than $3,000,000</td>
<td>Negotiated</td>
</tr>
</tbody>
</table>

Advisors often manage multiple accounts for the same individual or household. In this case, the common practice is to give every account the same price based on the total advisory-eligible assets of the individual or household. Once established, with the exception of household fees, advisors should not waiver from their fee schedule.

Fee schedules intersect with client service model development in that they determine the profitability of the service model the advisor has built. The client service model drives the costs of working with each client, while the fee determines the revenues available to offset these costs. With a fee schedule in hand, advisors can validate their proposed fees by multiplying their proposed fee for each potential advisory account by the current assets in the account. This will provide an estimate of their total annual advisory fee revenues.
At the account level, advisors can see the relationship between the service levels they have proposed for each client tier and the revenues associated with these clients. As with tax professionals and attorneys, advisors should consider each hour they work on behalf of a client to have billable value. For example, if an advisor determines their time and expertise is worth $150 per hour, they may measure the revenues from a client or client tier against the cost of their time. Based on the average advisor time allocation breakdown in Step One: Business Analysis (refer to pages 7–9), and assuming an advisor spends roughly twice the time on “A” clients than they do on their average client, they may find the following eye opening:

**Time Allocation for the Average “A” Client**

<table>
<thead>
<tr>
<th>Revenues</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Advisory Fee Rate</td>
<td>0.65%</td>
</tr>
<tr>
<td>Annual Advisory Fees</td>
<td>$6,500</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenses</th>
<th>Hours Spent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Client Meetings/Calls</td>
<td>8.8</td>
</tr>
<tr>
<td>Client Service</td>
<td>8.5</td>
</tr>
<tr>
<td>Financial Plan Design/Updating</td>
<td>4.6</td>
</tr>
<tr>
<td>Research/Portfolio Management</td>
<td>4.2</td>
</tr>
<tr>
<td>Rebalancing</td>
<td>2.3</td>
</tr>
<tr>
<td><strong>Total Hours</strong></td>
<td><strong>28.4</strong></td>
</tr>
<tr>
<td><strong>Hourly Billable Value of Time</strong></td>
<td><strong>$150</strong></td>
</tr>
<tr>
<td><strong>Cost to Serve Client</strong></td>
<td><strong>$4,260</strong></td>
</tr>
<tr>
<td><strong>Gross Margin</strong></td>
<td><strong>$2,240</strong></td>
</tr>
</tbody>
</table>

The gross margin in this example does not suggest that the advisor is either charging too much or providing too little service. Other overhead costs must be paid out of the fee, not just the cost of delivering service to the client. Thus, it does suggest that, in this example, the advisor’s fee is sound.

**The Impact of Transaction Fees**

If an advisor intends to use advisory programs that charge transaction fees, they should take into account how these fees might impact their pricing or investment management process. Assuming the transaction fees are charged to the client, the advisor should consider them as a factor when setting their total fee. In particular, advisors who frequently trade or rebalance may need to consider either reducing their proposed advisory fees or easing up the triggers on their trading strategies. If the advisor pays the transaction fees out of their gross fees, they should consider either marking up their fee slightly or changing their trading patterns to ensure their client relationships remain profitable.

**Planning Revenue Sources**

Advisors rarely make a complete switch from brokerage to advisory business in one quick step. They often maintain a mix of fee and commission business throughout their transition, and will inevitably have clients and accounts that cannot be transitioned to advisory programs. Many firms offer calculators to help advisors project their total revenues throughout their transition, based on assumptions regarding the assets to be
converted throughout the transition, new assets, and average fees and commissions. These allow the advisor to experiment with varying conversion rates and different transition timeframes to measure the impact on their gross revenues. More so than any other part of the financial preparation process, this step helps advisors find the confidence to move forward with their transition plan, knowing within reason what their revenues are likely to be for the next few years.

**Conversion Timelines**

The conversion timeline should not be created in a vacuum. It is deliberately listed as the last step in financial preparation because it should be the product of the other parts of the process, particularly the revenue projection exercise. Depending on the fees advisors set, their business mix, and the results of their gross revenue estimates, they may continue to do commission-based business for two or three years after they begin transitioning assets—although advisors usually transition the bulk of their assets within one year. However, a rapid transition of existing assets can be beneficial to any advisor, as the assets immediately become more profitable when they move from a brokerage account to an advisory account. Pushing themselves to follow an overly aggressive timeline is a mistake for advisors considering a transition to advisory fees. The conversion should be based on a timeline that allows the advisor to limit any disruption to their revenues.

**Communicating the Transition Plan**

With a transition plan finalized, including the client review, platform(s) selection, pricing, and service offering, the last task involves converting clients. This entails meeting and communicating with clients to convey the value-add and benefits of fee-based asset management, informing them of the conversion process, and setting expectations. To start, advisors need to determine which clients to transition and communicate with first.

**The Order of Client Conversion**

The order of client conversion is a critical step and one that is often incorrectly executed. The goal is to begin converting clients who will provide the most likely success of transitioning to fees. In creating a transition plan, advisors have to conduct a complete client review to identify which client assets should be transitioned. Factors affecting the order of conversion include:

- New clients versus established clients
- Small clients versus large clients
- Clients with whom they have the best rapport

In all of these examples, the client has to pass the litmus test regarding whether the assets can be migrated to an advisory program and will it benefit the client.

Some advisors are inclined to try out fees on their smallest clients first, not wanting to make their first attempts with valued, existing clients. The rationale is that any mistakes made will not create a huge impact on their practice. This is often a mistake, because converting these assets, which are usually not providing more than 0.25% in trails a year, does not provide enough fee revenue—and often less than what the small client was generating as a brokerage client.
Small clients also reduce the advisor’s capacity because they require almost the same time and support as larger clients. Additionally, small clients may not be the advisor’s best clients for advisory business. If a sour transition does develop, it can easily color the advisor’s perspective on moving to fees and discourage further adoption. All new clients, as long as they have sufficient assets, should be established from the start as fee-based, being aware that new client assets often grow at a slower pace. The best order for transition is to target established clients with sufficient assets and where the advisor has the best rapport. The level of rapport and assets will lead to a successful, complete client conversion and aid in growing assets under management as soon as possible.

Advisors should have a prioritized list and timetable to conversion. It is important that the advisor begins transitioning clients quickly, to build up assets and minimize the financial impact. Once the order of clients is determined, the next step is communicating this transition to the clients.

**Client Communication**

**Conveying the Value of Advice**

The most critical element of a successful communication plan for an advisor transitioning to fees is confidence in the value they will deliver. As many seasoned fee-based advisors are fond of saying, price is only an issue in the absence of value. Clients are unlikely to question the fees they pay if the advisor is clear about how they help the client achieve their objectives. It never pays to take a “one size fits all” approach to financial advice—offering low prices to draw large numbers of clients. Advisors who are timid about their pricing invariably draw disloyal, price-shopping clients, leading to low personal satisfaction with their business, as well as low revenues.

The best way for an advisor to gain confidence in communicating their fees is to hone their value proposition. A value proposition is not an abstract concept or a marketing exercise limited to large corporations: it is a practical statement of how the advisor positively impacts the lives of their clients. There are many excellent resources available to help advisors quickly build their own value proposition. Leo Pusateri’s book *Mirror, Mirror on the Wall, Am I the Most Valued of Them All?* stands out for its simplicity and focus on advisors.

Beyond the development of a brief value proposition statement, advisors should take stock of all the advice services they provide to their clients. While advisors often assume that the biggest impact they have on their clients is through their asset management services—growing retirement nest eggs and enabling the setting of future spending goals—clients often differ in their perception of how the advisor adds value in their lives. Counseling a client who is responsible for settling the estate of a parent who has passed away, providing their children with an education on money and investing, and answering questions about which mortgage might be best suited for them are all services that advisors may provide, but not highlight when talking with existing or prospective clients. Advisors should never assume clients know what they are paying for, but make it clear that their fees provide them access to a broad range of support to help them address expected, as well as unexpected, events in their lives. Taking stock of all the types of advice an advisor might provide can be the basis for a combined fee and service schedule, addressed later in this section.
Positioning the Switch to Fees with New and Existing Clients

A transition to fees is the ideal time to consider how the advisor’s services are introduced to prospective clients and re-introduced to existing clients. As many advisors enhance their services when transitioning to fees, it is a good opportunity to make sure that existing and prospective clients understand the value they will receive for their fee.

New clients often have relatively few preconceived notions about how they should pay or compensate an advisor for their services. A client’s primary concerns in selecting an advisor are trust, rapport, and what services they will receive. When it comes to compensation, clients are somewhat indifferent on whether the advisor is fee- or commission-based and are interested in how much they will pay, but not how they will pay. Advisors should clearly illustrate the range of services that they provide for the fees they charge.

Many formalize this in a combined client service and fee schedule, listing all of the services and advice a client can access through the advisor for their fee. This should not be held back when meeting with a prospective client, but openly addressed during the first meeting. Some advisors display this schedule on their desks or include a copy along with their brochure or other marketing materials they use. Being direct about the connection between fees and services makes it clear to prospective advisory clients that the advisor is confident in the value they deliver and allows them to see for themselves what they can expect for their fee. If establishing a bond of trust is the most important thing that can happen in a first meeting, transparency with respect to fees and services is a good start to achieving that goal.

With existing clients, advisors will need to present how the change from brokerage to advisory will provide additional benefits and service. Clients need to understand why the advisor is making the change in this context. It is important that they understand:

> **Their advisor is always looking for new solutions to better serve their needs.** Until relatively recently, advisory programs have not been available in such depth and with such variety of choice. These programs can help the advisor create stronger investment plans for their clients by providing best-of-breed, open architecture with no penalties (sales loads) that might encourage sticking with one mutual fund family or stock when a change should be made.

> **Fees align the advisor’s interests with those of the client.** When the client’s account value increases, the advisor’s gross compensation increases. Likewise, the advisor participates in the downside with the client. The advisor is paid based on their ongoing results, not on finding a product for the client.

> **The advisor will be providing them with a higher level of service.** At a minimum, this will likely include more frequent replacement of products that are under-performing and regular rebalancing. It will also include all of the ancillary advice services the client can access through the advisor.
The Client Dialogue

The introduction of fee-based services to the client should be made in one, in-person meeting. A client who is not convinced after one meeting is unlikely to transition to an advisory account. A one-hour meeting should provide all of the time required to address the features and benefits of an advisory program. Advisors should directly address the three points covered in the previous section, making it clear that they believe they need to transition the client to an advisory account to meet their investment goals. The new fee and service schedule should be discussed, so that the client understands the additional service they will receive for the fees they will pay.

Advisors can help their clients understand what the change will mean to them in real terms by providing them with a snapshot of their current portfolio versus their proposed advisory program portfolio. This allows the client to understand what changes will be made, why they will be made, and how they will benefit them. It also addresses the inevitable concerns or hesitation about something new or unknown by letting the client see what they will own and how their new portfolio will be structured.

An option should always be provided to clients who do not want to transition to an advisory account. They may choose to keep their assets in a brokerage account; but the advisor should make it clear that their new service model and enhanced services only apply to advisory clients. Positioning brokerage as the low-service offering is a powerful motivator to encourage clients to switch to an advisory account. Clients should understand that the advisor wants a deeper relationship with them and feel that an advisory account provides the best means of helping them achieve this goal.

Addressing Small Client Relationships

Small clients present a dilemma for many fee-based advisors. Most would like to retain all but a few clients when they transition to fees, but are uncertain how they can profitably manage these relationships going forward. There are two strategies for managing the cost of advice that allow a financial advisor to address this challenge:

> Leverage turnkey advisory programs or asset allocation mutual funds. If small clients are to be transitioned to advisory programs, the advisor should leverage turnkey programs that allow them to outsource product selection, asset allocation model maintenance, and rebalancing. Alternatively, the advisor can leverage commission-based asset allocation mutual funds to efficiently manage the assets. The time required to deliver investment management services to the client must be kept at a minimum to allow the advisor to still address these clients’ other planning questions and needs while making a profit.

> Use scalable communications. Newsletters and e-mails are an easy way to keep in touch with smaller clients. Fee-based advisors may include market commentary and notes on changes to model portfolios in these regular communications. They are an excellent way of providing multiple touch points with smaller clients throughout the year, while limiting the cost of communicating with these clients.
Next Steps: Planning for Future Growth

A successful transition to fees positions an advisor to grow their business faster and substantially increase its value. However, completing the transition is only the first step of what often becomes a dramatic transformation of the advisor’s business. Advisors who transition to fees find that the growth of their business and the evolution of their client relationships necessitates disciplined planning for the future. Successful fee-based advisors often devote one day per quarter to business planning to ensure that their business is well positioned to meet client needs and support future growth. While the barriers to growth differ somewhat by practice, all advisors should regularly review the following:

<table>
<thead>
<tr>
<th>Staffing</th>
<th>Financial Planning/Advice Capabilities</th>
<th>Succession Planning</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capacity is perhaps the greatest determinant of future growth. Many advisors wait too long to hire additional staff or a paraplanner/junior advisor. Without proper administrative and professional staffing capacity, advisors gradually find themselves spending less time on those aspects of their business that drive revenue: meeting with existing and prospective clients and providing client service.</td>
<td>As a fee-based relationship invariably draws the advisor into a broader spectrum of client concerns, advisors must consider how they can continually expand and improve their advice offerings. For some, this may include obtaining an advanced planning designation, such as the CFP®. Others may gradually add insurance advice, liability management, or advanced estate planning services to their stable of offerings as they migrate up-market to work with wealthier clients.</td>
<td>Few advisors address the question of what will happen in the event of their retirement or an unexpected incapacitation. Waiting until retirement is near to consider who will take over the business and how the transition will take place leaves an advisor with few options. Planning ahead allows for a gradual transition to someone who the advisor has selected themselves. It also offers the advisor the option of having a junior partner gradually earn equity in the practice, working their way toward partnership and eventual ownership of the business.</td>
</tr>
</tbody>
</table>

Over the next five years, fee-based advice will become the predominant service model among advisors. As fees replace commissions, advisors will need to continually reevaluate how they can continue to differentiate their business from that of other fee-based advisors. With the sound foundation of advisory revenues, a financial advisor will be well-positioned to reinvest in their practice to support its growth and competitiveness indefinitely.
This guidebook is part of a program designed to help investment professionals and financial services firms identify trends, enhance operations, and grow revenue. It represents Pershing’s unique approach to practice management support—going beyond high-level guidance to offer actionable information, personalized consulting, and ready-to-execute programs.

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