

Client 4 Life

Management System™

“The Road to Independence”

How fractional support resources are changing investment advice delivery models



The Road to Independence

The Catalyst

According to a 2017 survey by Cerulli Associates, 69% of breakaway advisers, meaning those moving from a wirehouse or regional firms to a pure or hybrid RIA or independent broker-dealer, said that a "desire for greater independence" was a "major factor" in their decision to move firms. In addition to independence, payout and business model options are major drivers in the decision to go independent.

The Basics - support

Launching into the independent world of wealth management as an RIA, IAR or Registered Rep can be a daunting endeavor. When considering independence, the real question most advisors come to terms with is, "what is the true cost of independence?" Independence at a minimum means, for most, securing support for the following functions:

| Operations | Trading | Compliance and Legal |
|-----------------------------|--------------------------------|------------------------|
| Transition consulting | Research and Diligence Team(s) | Finance and Accounting |
| Facilities, HR and Benefits | Marketing/PR/Social Media | Technology |

Fortunately, outsourced or fractional support platforms exist today for everything from technology, back office support, to virtual COO, CFO and "client facing" partner functions. The costs for these services is not insignificant; but for most advisors, it's still less than the GDC reduction off the payout grid.

The Economics - payout vs cost

A Wirehouse payout is typically between 35%-55%, but considering the support listed above, payouts may be in mid-60% range. Most Independent advisors see payouts in the mid 80's to low 90's. There is an industry "rule of thumb" for evaluating the move to independence. Applying the 40-35-25 rule, advisors can determine if a move is viable. The 40-35-25 rule works like this; from gross revenue, 40% is traditionally paid to the advisor, 35% will cover overhead and administrative staff, and 25% represents a traditional profit margin. An advisor with Assets Under Management (AUM) between \$50 - 100mm would be profitable by applying the formula above.

Business Owner, or Employee – be true to yourself

- Have a client base large enough to sustain a practice.
- Be capable of building and running a business.
- Adopt the entrepreneurial attitude, be willing to put in the many hours necessary to succeed.
- Develop a specialization to differentiate from the competition.
- The ability to effectively multi-task and prioritize.

Pick Your Battles – do what you do best

One of the key determinants of success for independent advisors (or any business owner for that matter) is the profitability of a practice. As fee-based practices become the norm, practice expenses and service models must evolve. Faced with the growing influence of Robo's and expectations of a new generation of investors, Advisors must consider new ways to build and manage success, such as:

- Finding a cost-effective way to manage the 80% of the book that drives 20% of the revenue, because client acquisition costs are 6x higher than client retention costs.
- Ensuring that licensed staff should operate almost exclusively in vital functions of the business
- Building repeatable and measurable processes to drive higher valuation multiples
- Consider fractional or outsourced staff to manage the non-revenue tasks

As Marshall Goldsmith states, *“what got you here, won't get you there.”* Those words could not be truer today.

In a fee-based practice, expense management is more critical than ever, and proper staffing can prove challenging. From hiring to training and managing, to employee benefits and the real estate necessary to house staff, labor is a dominant expense that will make or break most businesses.

Client 4 Life (C4L) is on the leading edge of the staffing dilemma. Utilizing a “fractional staffing solution” C4L brings two compliant, **human, U.S.-Based** support staff virtually to join an advisor's practice.

The Client 4 Life Management System™ is a fractional support client facing solution that delivers the perfect balance of people, process and technology to help financial advisors increase AUM, by filling their calendar with qualified appointments, run an efficient practice by using time-tested, repeatable and measurable processes, and enhancing the client experience with frequent and effective messaging that builds client loyalty; reinforcing the advisors' status as a trusted advisor.

To Learn more.

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Sources:

[Investment News](#)

Rappaport Report

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