RIA - THE MODERN ADVISOR

A registered investment advisor (RIA), in very simplistic terms, is an investment advisory firm that provides individuals (typically the 'mass affluent' segment with an AUM of $100k-$1mm) with advice and recommendations on financial planning and wealth and investment management. RIAs are required to register either with the US Securities and Exchange Commission (SEC) or with state securities administrators, depending on the size and AUM of the firm. Since they fall under the purview of the SEC, they are expected to act in a fiduciary capacity, which means they must always act in the best interests of clients while conducting business. As fiduciaries, RIAs have a responsibility to maintain efficiency and costs while executing trades for clients and also have an obligation to disclose any potential conflicts of interest at all times. Unlike the traditional financial advisor (FA) that operates a commission-based business, RIAs generally run a fee-based business, which means they collect a percentage fee on the total assets under management (AUM) for clients.

GROWTH OF THE RIA MARKET

In recent years, RIAs and fee-based advisors have grown in popularity in the financial marketplace. The new generation of clients are demanding more customization, are sensitive to fees and require a strong trusting relationship with their advisor. Advisors, on the other hand, prefer more autonomy and favorable payout structures. This combination of evolving client and advisor needs has led to the RIA channel growing at an exceeding pace and is now undeniably the fastest growing advisor channels – expected to account for nearly 30 percent of the retail financial services business by 2020[1].

GROWTH DRIVERS

- Evolving **client preferences** for advisors that have a clearly defined **fiduciary responsibility**
- Evolving **advisor interest** in owning all aspects of the client relationship including investments, fees, compliance and marketing communications
- Increase in **'breakaway advisors'** leaving broker-dealers (B/Ds) and banks for **greater autonomy** and more favorable **payout structures**

SEC-registered advisors' AUM now stands at **$82.5 TRILLION**, a **16.7 PERCENT INCREASE** from **$70.7 TRILLION** in **2017**, the largest percentage increase since **2014**[2]

From **2015** to **2019**, **18 PERCENT** of RIAs engaged in acquisitions[3]

By **2020**, the RIA segment is expected to account for **30 PERCENT** of the retail financial-services business, up from about **21 PERCENT**[1]

REGULATORY AGENCY ENGAGEMENT

A large part of setting up an RIA is complex registration requirements and identifying the correct regulatory authorities you're required to engage with to set up and operate the firm. Depending on the nature and scope of the business, filing and compliance requirements would vary. The agencies that may need to be engaged are the SEC, FINRA, Federal Reserve Board and the relevant states where the RIA is registered. Firms or individuals who manage more than $100 million in assets are required to file with the SEC, while those with a smaller asset base must register with their respective states.

INVESTMENT ADVISOR REPRESENTATIVES (IARS) VS. BROKERS

IARs and brokers are separated by two critical differences in their advising practices. IARs have SEC oversight and are required to act with fiduciary duty, which means they are legally required to place their client's interests above their own. On the other hand, brokers are registered with FINRA, which subjects them to a suitability standard, meaning they must ensure that their recommendations are 'suitable' for their clients' personal situation, but does not require the advice to be in the clients' best interest. Further, IARs are typically compensated by charging a percentage fee on a client's total AUM (flat fee) while brokers use a commission-based system (transactional commission). The fee compensation structure helps to minimize issues related to conflict of interest, as an advisor's interests tend to be more closely aligned with those of the clients.

IN SUMMARY

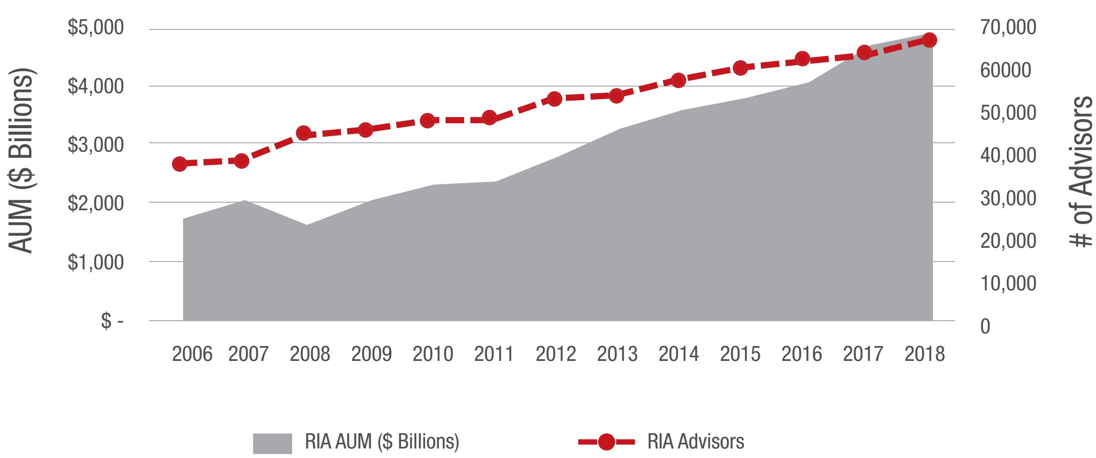
The evolving wealth management clientele has become extremely cynical – demanding more transparency, lower fees, and higher customization. With the proliferation of millennials, this skepticism has become a serious concern and is only expected to increase in the coming years. One of the quickest and most efficient ways for the market to address these concerns has been the rise of the RIA segment. The RIA model provides clients with more transparency around advice and fees (given the fiduciary duty and fee-based model), and at the same time, provides the required autonomy and flexibility to advisors to personalize their advisory businesses. This collaboration between the advisor and client has led to the RIA channel becoming the fastest growing advisor channels today. While wirehouses and broker-dealers still maintain the largest share of assets within the wealth management segment, the lead is shrinking, as an increasing number of advisors are breaking away from the traditional model, and RIAs are increasingly poaching assets from these larger institutions.

IN SUMMARY (CONTINUED)

The RIA channel grew its share of advisor headcount from **11 PERCENT** in **20.3 PERCENT** over the last ten years[3]

Independent RIAs continue to attract more breakaways than any other in 2018, with a **NET GAIN** of **3,184 ADVISORS**, compared to wirehouses, which had a **NET LOSS** of **1,247 REPRESENTATIVES**.[4]

RIA Market Overview (2006 - 2018)



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