WHAT'S THE APPEAL OF THE HYBRID RIA MODEL?

An increasing number of advisors in recent years have left firms and adopted the Hybrid registered investment advisor (RIA) model. They've found that operating as a Hybrid RIA offers greater flexibility in managing and growing their practice as well as greater latitude in the ways they work with clients.

The Hybrid RIA model helps streamline the process by which advisors can offer both advisory and commission-based services and products to their clients. With the right platform, advisors can broaden the scope of their investment and planning services. The rapid growth of the Hybrid RIA model represents an important evolution in how advisors can manage their practices—and provide better service to their clients. “The Hybrid RIA has become the model of choice for advisors looking to make a move,” said Matt Enyedi, LPL Financial executive vice president, RIA Solutions.

Nearly one in four advisors considering a move from their current firm would choose to transition to the Hybrid RIA model. Advisors can pursue this by joining an existing RIA or starting their own. Mindy Diamond, president and CEO of Diamond Consultants, a New Jersey-based search and consulting firm specializing in advisor placement, said advisors have embraced the flexibility of the Hybrid RIA model. “It’s been a perfect storm,” she said. “Advisors want more control, and the industry has expanded with models that allow advisors to be more independent while also monetizing their businesses.”

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THE APPEAL OF THE HYBRID RIA MODEL

Advisors traditionally have operated under the following models:

- **Traditional broker/dealer representative:** Advisors can work directly for a wirehouse or maintain an independent advisory practice that’s affiliated with an independent broker/dealer. Brokerage business is handled through the broker/dealer.

- **Fee-only Hybrid RIA:** Advisors can launch their own RIA firm by registering at the state or federal level and building their own compliance infrastructure. Client assets are held by a custodian, which can also provide a range of practice management services, like processing and back-office assistance. Advisors working under this model aren’t registered representatives of a broker/dealer and can’t offer commission-based products.

- **Hybrid RIA:** Similar to the fee-only RIA model, where advisors must register their RIA firm with their state(s) or the SEC and comply with applicable regulations, the Hybrid RIA means advisors are also registered representatives of a broker/dealer. As a result, advisors can handle commission-based products through their broker/dealer and fee business through their RIA.

In the case of an advisor coming from a wirehouse environment, the move to an RIA model—whether a fee-only RIA or a Hybrid RIA—may offer more control over investment policy, investment decisions, staffing, marketing, and other business functions.

For instance, wirehouse advisors are often required to keep clients’ portfolios within the bounds of their firm’s investment policy. That may pose challenges for advisors who want to use particular wealth management strategies or products, such as hedge funds and other alternative investments.

The Growing RIA Market

Asset Marketshare for Independent RIA and Dually Registered Channels, 2005–2014

![Graph showing asset marketshare for Independent RIA and Dually Registered Channels from 2005 to 2014.](https://example.com/graph.png)

Advisors at wirehouse and insurance firms may have little control over the ways revenues are reinvested in the practice. For example, a portion of an advisory practice’s revenue may be earmarked by the wirehouse or insurance firm for branding and corporate marketing. An RIA can offer advisors greater control to allocate revenue as they see fit. “They have earned the revenue, they want to determine where it goes,” Enyedi said. “That’s a big reason why advisors like the Hybrid RIA model.”

The Hybrid RIA model also gives advisors the flexibility to grow their practice. An advisor may choose to add advisors or acquire another firm’s book of business.

Finally, the Hybrid RIA model can offer the benefit of ownership, both during an advisor’s time at the firm and during any transition or exit strategy. That’s what helped drive Bennett Marks, president and chief investment officer of Marks Group Wealth Management, a Hybrid RIA in Minnetonka, MN, to move away from the wirehouse environment. The Hybrid RIA model allowed Marks and his partner John Feste to benefit directly from the practice’s growth.

“It was very attractive to us to transition to a firm that we owned,” Marks said. “We were very aware at our old employer that our clients weren’t our clients; they were the firm’s clients. They’re our clients now.”

HYBRID RIAs: A CUSTOMIZABLE SOLUTION

As advisors are becoming attracted to the flexibility of the Hybrid RIA model, many are finding that the Hybrid RIA model can be easily tailored to fit the specific needs of their practice. What’s more, the Hybrid RIA model opens avenues for growth and client service beyond those offered by a fee-only RIA. Here are some ways Hybrid RIAs stand apart from fee-only RIAs:

- **A broader array of investment products:** Advisors moving to a Hybrid RIA have access to a wider range of investment products traditionally offered through transaction-based relationships, such as annuities. At a fee-only RIA, an advisor may need to refer clients to third-party brokers or other professionals to purchase such products.

- **An adaptable model:** A Hybrid RIA allows advisors to choose a structure that best suits their practice and clients. Enyedi noted that on average, Hybrid RIA advisors typically maintain a 70%/30% split between fee-based activities and commissions. However, advisors can adjust those ratios to best suit their practice and their client’s needs, whether that means moving to the fee-based side or the commission-based side.
MAKING THE HYBRID LEAP

Transitioning to a Hybrid RIA offers advisors the potential for increased flexibility and control, but also increased responsibilities. Before making this move, advisors need to consider where they want to take their practice.

Diamond, who works closely with advisors during the transition process, said advisors must educate themselves about their options and responsibilities. “Going independent requires a tectonic shift in thinking,” she said. “The biggest mistakes I’ve seen have happened when advisors chose to make a move without really doing their homework and without knowing their own goals and aspirations.”

Furthermore, Diamond said advisors need to ask themselves whether they’re ready to run their own business. Advisors must handle their own profit and loss statements, hire staff, consider marketing strategies, and even handle finding office space and outfitting it with furniture. “Mentally, you have to have entrepreneurial DNA,” she said. “Some people are just better suited to working in a turnkey environment.”

Importantly, advisors looking to make the Hybrid RIA leap need to consider the compliance and legal obligations that come with operating an independent RIA.

In many cases, working with an independent broker/dealer can let advisors delegate key activities such as automated fee calculation and billing, and portfolio management and reporting. Marks and Feste chose a firm that could deliver custodial and broker/dealer solutions in part to streamline the client experience. “It’s critical to find the right support,” Marks said. “Your business partner is your backbone. It’s important to sit down, learn what they have to offer, and decide whether they’re a good fit for your business.”

Retention Rates

What percentage of clients stay during a transition?

- 75% to 100%: 59%
- 50% to 74%: 14%
- 25% to 49%: 12%
- Less than 25%: 14%

ARE YOU READY TO MAKE THE HYBRID RIA MOVE?

Once you’ve made the decision to transition to a Hybrid RIA, it’s time to start preparing for the move. Don’t rush the process: The transition period is a critical one for advisors, said Matt Enyedi, LPL executive vice president, RIA Solutions. “It’s very important to be thoughtful on the front end of this process,” he said. “If you’re hasty, you could make decisions that could have a long-term negative impact.”

Here are several issues you should consider before making the move.

Rules and Regulations

Moving to a Hybrid RIA always means taking on new compliance and regulatory responsibilities, from filing your own ADV form, to developing systems and policies to manage your books and records, to ongoing compliance obligations. These responsibilities are growing in today’s demanding regulatory environment. Should you outsource that work or hire dedicated staff to manage these tasks? There’s no right choice—different approaches are appropriate for different types of practices. Solicit feedback from advisors who have made the switch to the Hybrid RIA model about what worked for them, and what mistakes they made that you can hopefully avoid.

Technology

Traditionally, independent advisors are responsible for handling their practice’s technology needs—from customer relationship management (CRM) software, to systems for trading and rebalancing. “You need to figure out how to navigate all those systems,” Enyedi said. “The right firm can help you seamlessly integrate solutions that will work for your business.”

Again, depending on the size and style of your business, you may choose to outsource your technology needs or hire a chief technology officer who can implement—and manage—the appropriate systems for your practice.
YOUR PRACTICE, YOUR WAY

However you envision the future of your practice or program, LPL's comprehensive support and broad range of innovative business models can help you build and grow your business, your way. LPL understands that independence doesn’t have one single meaning. Whatever lens you view your independence through, LPL is here to support and provide clarity to that vision. Here are just a few ways how:

- Be an independent financial advisor at LPL with access to custodian services and a fully integrated platform to address the varied needs of your clients.
- Leverage the LPL Hybrid RIA model, which allows you to join LPL’s broker/dealer platform while maintaining your RIA firm.
- Join an existing practice, bank, or credit union for established infrastructure, structured support, and access to new referral sources.
- Specialize in retirement plans and leverage tools and resources built by retirement plan advisors, for retirement plan advisors.
- Bring your entire practice or build one—LPL offers customized clearing, advisory platforms, and technology solutions to help create efficiencies and scalability within your practice.

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