How to start an RIA

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So you want to go independent?

If you're a financial advisor at a wirehouse, odds are you consider going independent and forming your own RIA at least once a year. You likely think about the years of hard work it took to build your book and how your firm continues to take 40% of your production only to force you to use antiquated software.

If you're at a regional firm or IBD, chances are you still think about going independent, because the payout rates still aren't great and the software continues to leave you wanting for more.

There are more than 300,000 financial advisors in the United States, but only a few hundred RIAs are formed each year. The reason so few advisors break free is simple: it's a confusing process that costs a lot of money and doesn't always leave the advisor and her clients better off. Fortunately, times are changing.

While it's never been easier to form an RIA and deliver better outcomes to your clients, we recognize that most advisors might not know where to start. This guide will help you determine when and how to start your own firm.

Let's start with the most important question.

Is it worth it?

01

Make sure it’s a good fit for you

There are many factors that should be considered before making a move for independence. Most simply, figuring out "is it worth it" rests on advisors asking themselves three simple questions:

1. Will I be able to offer my clients better financial advice?
2. Will my clients stay with me?
3. Will I be better off?

The first question typically sees an unequivocal yes. Absent the constraints of a wirehouse pushing their products, the conflicts of interest and poorly designed software, advisors are free to use any financial products they want to deliver the best possible advice to their clients.

The second question is probably given more thought than necessary only because advisors often haven't correctly evaluated their client relationships.

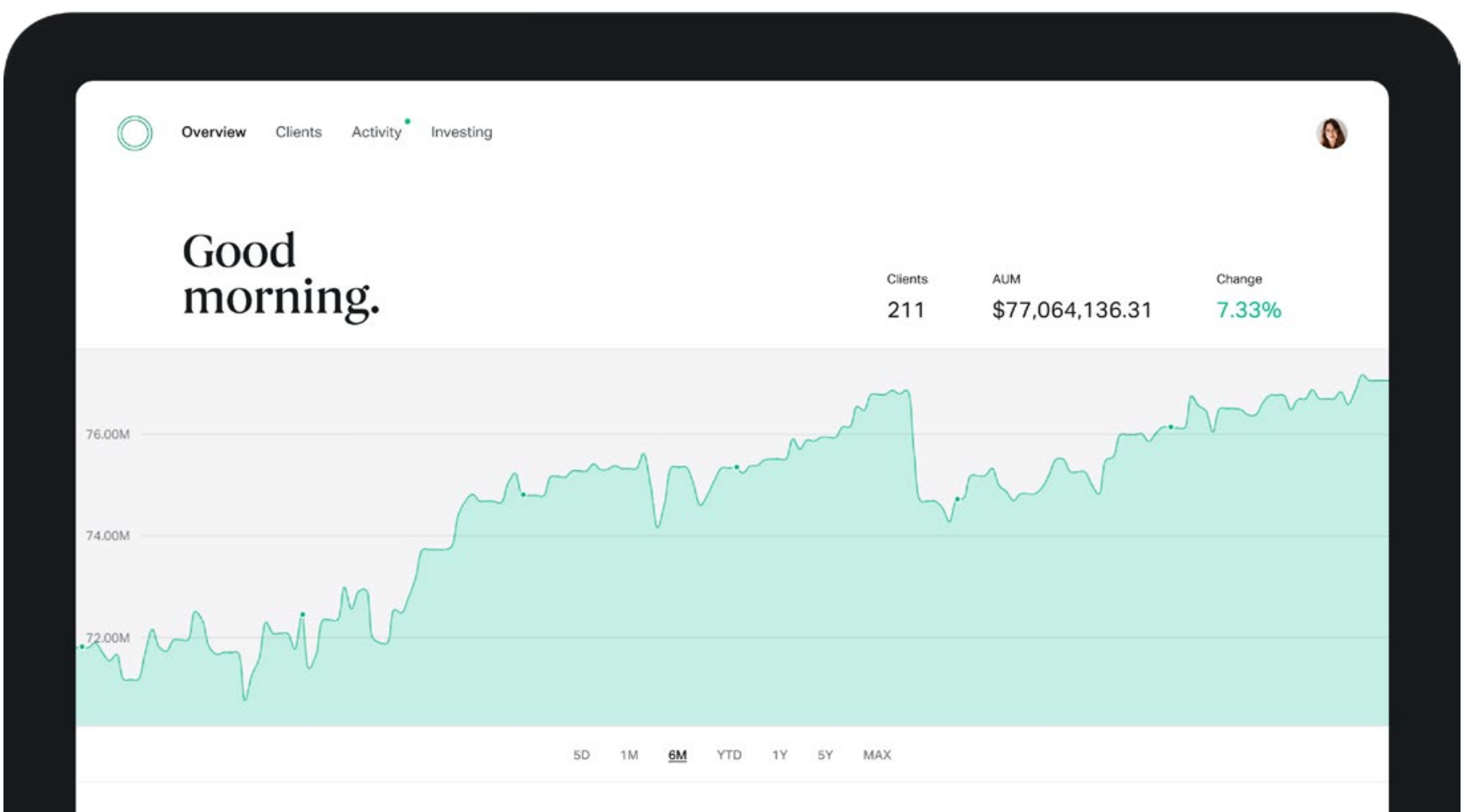
Those advisors who see themselves only as an investment provider may have difficulty here. However, as Carl Richards recently noted in a talk he gave at Altruist, if you correctly diagnose a problem, people usually don't care about the details because they trust in your expertise to ensure it's the best possible solution.

Thus, if your clients believe you understand what keeps them up at night and that you can help them sleep better, they'll follow you to any new RIA, custodian, or investment model because they trust you.

The third question historically was where most advisors stopped. Given the obscene cost of running an RIA, advisors rightly concluded that taking home more of their production wasn't worth it.

Now that Altruist changed the playing field and virtually eliminated software costs from an advisor's analysis, let's review what else you need to consider before forming your RIA.

Altruist software



02

Know what you’re about to get into

This might seem like a no brainer, but the devil is in the details. Read your employment agreement, speak with experts and consult online resources. The last thing you want to do is start telling your clients you'll be starting your own firm in six months only to suffer legal action from your current employer because you violated a term of your employment contract.

Like any project, start with a checklist. We created an easy-to-use list here that can help you understand exactly what's involved with going independent.

03

Keep the lights on

Setting up a legal entity, managing a business banking account, ensuring proper accounting reconciliations, and getting adequate insurance coverage are things that don't add value to your RIA but help you keep the lights on. With that in mind, you want to create as much of a "set it and forget it" approach as possible.

First, you'll need a lawyer. You need a legal entity and you need agreements. You could go it alone by having a sole proprietorship and copying/pasting parts of an IMA you're already familiar with, but you might as well set aside every dollar you make as your disaster fund.

Exposing yourself to unlimited liability and not tailoring your IMA are easy ways to turn tail risk events into unmitigated disasters.

Each legal entity type has its pros and cons, and the right choice depends on your circumstances. For most RIAs, a simple LLC is best. For partners, a multi-member LLC could work, too, but depending on capital needs, your state and growth plans, an S-Corp may be more appropriate. Services like LegalZoom make it as inexpensive and easy as possible, but don't overlook the value of consulting an attorney. Ideally, you have one in your network with whom you're referring clients. And if you don't, use this as an opportunity to create that relationship.

Second, look for integration when it comes to accounting. The temptation may be to stick with whoever you're using for your personal banking, but odds are you have better options. Software like QuickBooks Online integrates with certain banking and credit card providers which virtually eliminates the need for you to save and upload receipts or perform month-end reconciliations. That's more time giving financial advice and less time sorting out your business finances.

04

Keep the SEC happy

Having served as a Chief Compliance Officer for multiple SEC-registered investment advisers, take it from me: keep the SEC happy. And the only way to do that is to hire someone that has a track record of keeping them happy. Unless you're establishing an RIA with more than $350 million in AUM, a full-time CCO probably doesn't make sense. You'll need part-time support.

Most advisors tend to hire a consultant. You may balk at the cost, but consider the alternative: forgetting a simple ADV update or not pre-clearing a routine trade could result in a fine, a costly deficiency letter, or an event you'll forever need to disclose to every client.

Some consultants will promise the world, charge a fortune, and only give you off the shelf templatized documents. It's easy to get caught up in their sales pitch if you're unfamiliar with the requirements. At a minimum, you'll need the following:

1. FINRA entitlement
2. Form ADV filing
3. Form U4
4. Investment Management Agreement
5. Privacy Policy
6. Compliance Manual & Code of Ethics
7. Business Continuity Plan
8. Information Security Policy

Keep in mind, these really are the absolute minimum documents you need. Depending on the type of securities you're trading for your clients and your portfolio management strategies you could need a dozen other policies and procedures, along with a robust compliance monitoring program.

Hiring a quality cost-effective consultant will be key to ensuring you're satisfying your regulatory obligations so when the SEC or your state securities regulator visits you'll make it through the exam unscathed.

As part of this series, we'll dig into best practices for hiring a compliance consultant, key issues to be aware of before filing your ADV, and how to easily tailor policies to your business.

05

Select your vendors

The area that turns most advisors off to forming their own RIA is vendor selection. Just look at a list of the things you need to run your business:

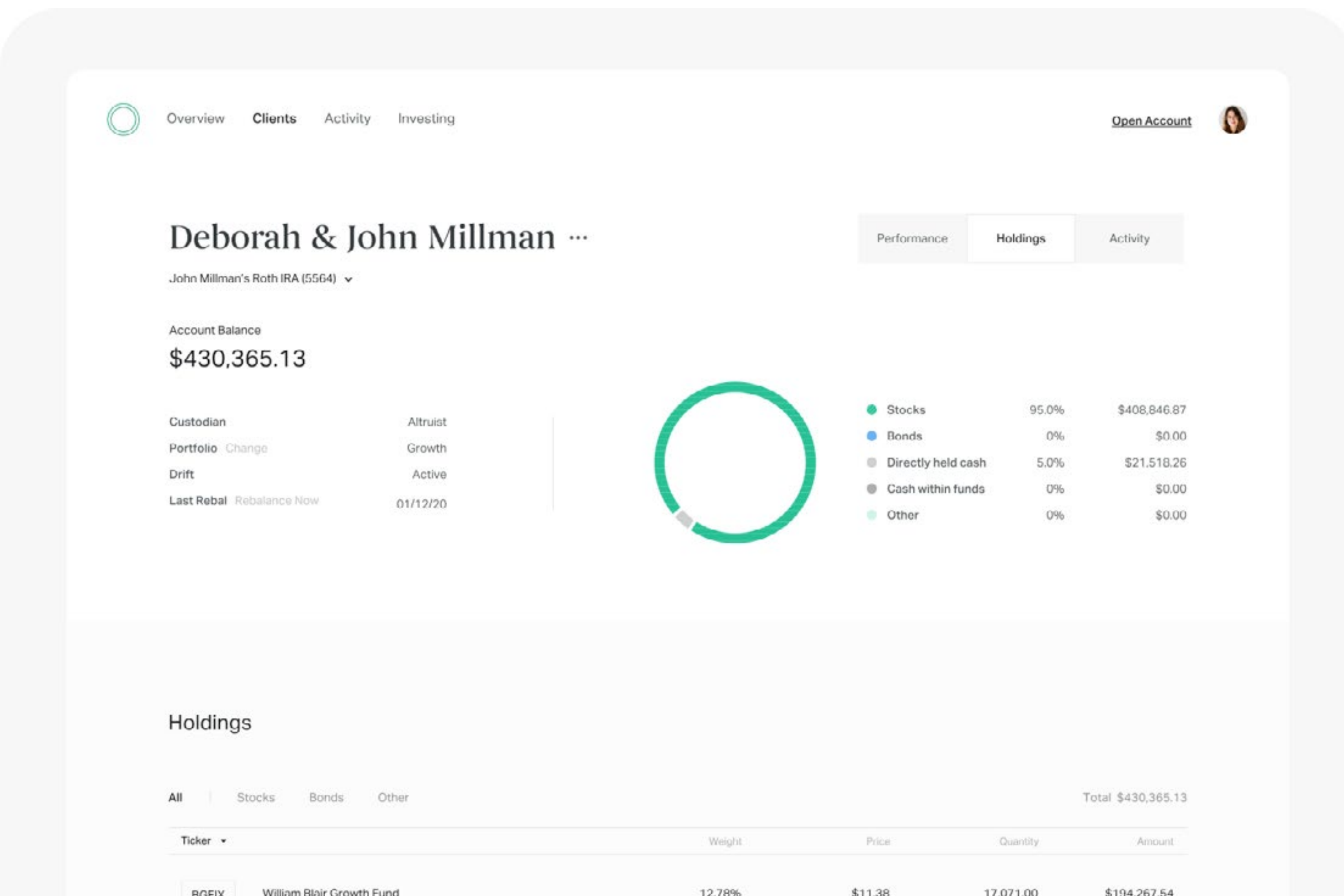
1. Custodian
2. CRM
3. Financial planning software
4. Performance reporting tools
5. Trading program
6. Client portal
7. Risk analysis software
8. Fee billing program

As if that wasn't daunting on its own, until very recently an advisor needed to contract with 8 separate vendors just to get access to everything on that list. With no fully integrated solutions available, that means advisors need to switch between 8 different applications on their computer just to prepare for one client meeting.

To make matters worse, the price tag is a non-starter for most advisors. An average RIA with $35 million in AUM will pay $40,000 to $50,000 for that tech stack. That means advisors charging their clients 1% annually traded Morgan Stanley taking 40% of their production for software vendors taking 15% of their production. It's better, but nowhere near as appealing considering the time, effort, and risk of forming an RIA.

With Altruist, advisors get a best in class software tech stack in a fully integrated platform. Commission-free trading, performance reporting, automatic trade rebalancing, portfolio management tools, fee billing and an elegant client portal all while allowing the advisor to keep everything she earns.

We think our advisor software speaks for itself, so we won't turn this into a sales pitch. The key takeaway here is that the cost of software is no longer a factor in determining whether to form an RIA.



About the Author

Mazi Bahadori is the CCO, VP Securities at Altruist, an LA-based fintech company that's making investing fair for everyone. Altruist is the only solution for modern financial advisors who put their clients first.

Mazi is a seasoned veteran in financial technology, having previously served as the CCO and Director of Operations for Aspiration. Prior to this, he worked for PIMCO as VP of Legal & Compliance, Morgan Stanley as a financial advisor and Goldman Sachs as a government affairs associate.

He began his career serving as an aide in the U.S. Congress and the White House Counsel's office. Mazi holds a JD and MBA from Chapman University and a BA in History from UC Berkeley.

As a finance executive, Mazi has been responsible for legal, compliance, operations, investor relations, risk management, and cybersecurity functions.