"The Rise of the Hybrid Advisor"

By Peter E. Ruhlin

The dually registered wealth advisor,[1] the fastest growing group within financial advisory services, is not a new concept but it is rising like a phoenix. From 2008 to 2013, the ranks of dually registered advisors increased by 50% to more than 24,000. A leading industry research firm recently predicted that dually registered advisors and registered investment advisors ("RIA") will account for 27.9% of all assets under management ("AUM") and 24.6% of advisor headcount by the end of 2018, compared to 19.8% of all AUM and 18.6% of advisor headcount at year-end 2013. From 2007 to 2013, AUM of dually registered advisors grew at a compound annual growth rate (CAGR) of 6.3%, while assets under management (AUM) grew from 6.8% of the market to 7.9%. The statistics further reinforce that RIAs manage more AUM than non-RIA advisors, generally. At the same time, other channels continue to suffer negative growth rates (e.g., wirehouses and independent broker-dealers). These trends are projected to continue. So, why the significant increases?

Having the ability to work with clients on both a fee and a commission basis provides the independent hybrid advisor with a tool kit that responds to what clients are seeking from advisors. For years, many independent advisors trumpeted their "open architecture" fee-only advisory platforms and the lack of conflict the platforms provide them. These fee-only platforms, however, may actually limit an advisor's ability to adequately assist clients due to a narrower set of investment solutions and products. Having a hybrid capability for many independent advisors is simply pragmatic as it provides advisors with more options to ably serve their clients. For example, can a wealth advisor feel good about charging a client an advisory fee for advising on a portfolio comprised of 10-year municipal securities which are providing a yield of less than 2.00%? The hybrid model also provides the advisors with (1) increased autonomy of their practices, (2) better overall economics for their businesses due to a broader service offering priced accordingly, and (3) the ability to attract other similar advisors in transition. Too often, the hybrid model is framed in terms of the advisor. For both advisors, and their clients, it is equally advantageous and presents a "win-win" situation.

At the heart of this trend lie two distinct constituencies: (1) the advisor residing at a wirehouse seeking to independently operate both a fee and commission-based business, and (2) the independent RIA who historically may have only had a fee-based business and has determined it is beneficial for both the RIA and the RIA's clients to offer a hybrid model. Historically, for the wirehouse advisor looking to go independent and for most RIAs, the fee-only based model appeared a solid alternative to the commission-based option. The 2008 market and the events following have caused many an advisor to reconsider their business models and to be more open to the hybrid alternative and being able to do both. Adding value to clients and creating new revenue sources are critical and at the top of most "why?" lists.

The hybrid model, in our view, should really be a hybrid portfolio of client-centric features containing more than the ability to capture both fee and commission business. It must also consider other core components of a strong business model, including (1) a focus on client segmentation – i.e., which types of similar clients the business can best service, (2) implementation of organic and inorganic growth strategies, (3) leveraging integrated technology and human resources, and (4) providing a differentiating value proposition to its clients.

The fee-based financial advisory model has continued to show increased use and adoption by advisors at wirehouses and independent broker-dealers. The independent broker-dealers not adopting a corporate RIA model or other advisory fee solution to accommodate these advisors are experiencing limited or negative growth, and continue to do so at their own risk. For the advisor at a wirehouse seeking to go independent or at an independent broker-dealer, and seeking a hybrid capability, the advisor has a number of choices, including starting their own RIA and affiliating with a broker-dealer.

For many advisors, the concept of leaving a wirehouse or an independent broker-dealer and starting their own RIA can be daunting. The major custodians are all eager to work with those advisors going "independent," and all provide a suite of services, assistance with the transition process and a team to execute a conversion. Other options include joining one of the many consolidators or working with firms that specialize in providing the RIA infrastructure and services required for a hybrid platform but do own the advisor. The question for the advisor going independent and seeking to retain commission business is two-fold: (1) does the advisor want to be an individual business owner or an employee, and (2) if the former, how does the advisor identify and choose a broker-dealer to affiliate with? Again, the options are abundant, but in many, if not all, cases the RIA and broker-dealer options are a "one-size fits all" solution, and do not specifically cater to a specific client segment.

Independent advisors and broker-dealers focused on specific client segments have numerous benefits over those that do not. For those advisors who focus on specific client segments, aligning themselves with a broker-dealer that understands the advisor and the advisor's client's needs is, and will continue to be, an important differentiator in a fast growing market. For example, ultra-high net worth and high net worth clients have unique needs and are seeking different investments solutions and products than mass affluent and retail clients. Many of these solutions and products are complicated, such as alternative investments and structured products. The advisor/broker-dealer relationship becomes more critical as the client's needs become more complicated, and the value of a fulsome compliance and risk management regime which can work with the advisor in these circumstances cannot be overstated.

The convergence of the independent advisor and broker-dealer industries is not happening seamlessly. Different regulators[2] and different advisor standards, along with a dual revenue structure, will continue to bring challenges to the dually registered advisor community. Compliance and regulatory oversight are at the top of the list. Dually registered advisors must appreciate that the broker-dealer will have supervisory oversight over their advisory business as well as their brokerage business. For some this will be a compliance benefit, and for others a source of frustration. In addition, there are operating and infrastructure costs involved which need to be evaluated when considering the benefits of a hybrid model.

Wealth management businesses that offer a hybrid platform, with the right broker-dealer, with attention to appropriate services and products, priced accordingly, and implementing a sound business plan, will continue to grow beyond their peers and increase their enterprise value accordingly. There will continue to be many good options in the market for advisors seeking a hybrid model to work with. At FallLine, we believe the end-game winners in wealth management will be firms that fully understand and focus on specific client segments, applying models that capitalize on delivering both services and value to their clients and use integrated technology to scale and leverage their business. The hybrid platform for many advisors (and their clients) fits the bill.

FallLine Securities, an industry innovator, launched the first wealth management platform designed exclusively for elite Private Wealth Advisors and their ultra-high net worth clients. FallLine is the only UHNW-focused firm that combines a broker-dealer, a turnkey technology/services platform, comprehensive transition services and a network made up exclusively of other successful Private Wealth Advisors. FallLine provides entrepreneurial Private Wealth Advisors with the only clear, unified path to their own hybrid RIA and significant wealth creation opportunities. For more information regarding our market views and services, please contact us or visit us at www.falllinesec.com.

John A. Straus	203-621-6221 x801 or j.straus@falllinesec.com
Peter E. Ruhlin	203-621-6221 x802 or p.ruhlin@falllinesec.com
Paul G. Bigler II	203-621-6221 x803 or p.bigler@falllinesec.com
Shawn P. McCormick	203-621-6221 x804 or s.mccormick@falllinesec.com

1. Generally, dually registered wealth advisors are affiliated with a broker-dealer and maintain a registered investment advisor (RIA) registration separate from their broker-dealer. Advisors operating under a corporate RIA as an investment advisor representative (IAR) would fall outside the definition of a dually registered advisor.

2. The Securities and Exchange Commission, or the applicable state regulatory authority, regulates RIAs and the Financial Industry Regulatory Authority (FINRA) primarily regulates broker-dealers.