AdvisorAssist

Going Independent

Starting and Operating Your Investment Firm

About AdvisorAssist

AdvisorAssist is a management consulting firm focused exclusively on serving investment advisory firms. Through consultative services and outsourcing, we provide expertise, resources and actionable solutions that enable investment advisors to achieve their full potential.

AdvisorAssist is dedicated to fostering entrepreneurship within the investment advisory industry, empowering advisors to run their "practice" like a "business" and helping advisors increase the enterprise value of their firms.

We provide comprehensive business planning, registration, and compliance design services for RIAs and those seeking independence. AdvisorAssist can also deliver these services discretely, to enable advisors to continue serving clients through their existing firm.

For more details, please view our website at **AdvisorAssist.com** or call us at **866-513-4042**.

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> *You cannot build character and courage by taking away man's initiative and independence.*
>
> ***-Abraham Lincoln***

Introduction

This white paper is intended to help transitioning advisors understand each of the key components to establishing a new RIA. It can be best utilized as a tool to guide you through each of the numerous decisions and tasks that you will face as you embark on this new and exciting entrepreneurial venture.

Today, the investment advisory industry consists of a vast (and growing) array of business models choices, each with its own mix of autonomy, independence, risk, and rewards. For the right individuals, the entrepreneurial route of establishing an independent RIA can be an incredibly rewarding path for your team and your clients.

This whitepaper is organized around several key components of the transition process. We review each component and provide a set of key questions that will guide you (and your team) through the process of transitioning to an independent RIA.

Assessment & Commitment. A set of topics and questions that will help you make a thorough assessment of your current situation, prior to embarking on transition.

Business Model Design. A framework to guide you through the design of your RIA's business model and the drafting of your business plan.

Legal & Registration. Creation of your new RIA's legal entity and registration with the SEC or State securities regulators.

Compliance Program Design. Development of your RIA's compliance program.

Technology & Operations Planning. Analysis of the numerous technology and operational decisions that will support your RIA's business activities.

Planning for Growth. A guide to help you through the basic components of planning your business development activities.

Transition Planning. An action plan and timeline that details the sequential tasks necessary for you to execute a smooth transition to your new RIA.

Post-Transition. An important (but often over-looked) component of the advisor's transition, including follow-through and additional planning items to help your firm prosper.

Assessment & Commitment

Is this the right move for you?

Prior to making the commitment to transition to a new RIA, there are a number of areas that deserve contemplation. We encourage you to spend ample time in the assessment and commitment phase, reflecting on your business goals, available resources, and desire to become a business owner.

Proactive vs. Procrastinate

Which activities do you currently perform proactively? Which do you tend to put off until the last minute?

This may be the most credible indicator of your true passions.

Self-Assessment. This is the time for honest self-reflection. Starting a new business is exciting and often rewarding. However, becoming your own boss and managing a team requires a unique skill set that many talented professionals do not possess. You should contemplate what it is that you enjoy most about being an advisor and lay out your motivations for transitioning to an independent RIA. Equally important, you should also consider what you like least about your current role. An effective exercise that helps with this is to list the tasks that you perform proactively and which you generally leave for the last minute. Prior to committing to a transition, advisors may also want to consider whether the timing is right, both from a personal career perspective as well as from a client perspective.

Client Assessment. Client relationships are obviously the key to a new RIA's success. When assessing your existing clients, you should review each relationship to estimate the probability that each will follow your team to the new RIA. This is also a good time to take a more critical look at each relationship from a revenue and resource perspective. If you service any clients that are not profitable or do not align your vision you may wish to consider referring them to firms with offerings and service models that will provide a better fit. It is also important to discern which clients would consider your relationship to be with the "advisor", as opposed to with the "firm". This is a challenging exercise for many people. It is best to err on the conservative side.

Resource Assessment. Large financial services firms employ thousands of people to support your advisory teams. They perform a myriad of operational functions that ultimately increase the amount of time an advisor has available for relationship management, investment research or prospecting. When transitioning to an independent model, this "hidden infrastructure" goes away and must be replaced with an effective combination of your staff, the "right" technology, consultants and business partners. The good news is that advisors can assemble these resources, but with this comes a need for planning and human resource management.

Financial Assessment and Economic Modeling. The costs of starting an RIA firm can range dramatically based on the unique needs of each firm. It is imperative that advisors assemble a budget with monthly cash flows to ensure adequate resources during your first three years of operation. Conservatism is the key here and advisors should "plan for the worst but hope for the best." There will be clients that will not make the transition and those that do, may take longer than expected.

Commitment. If this self-assessment and review of pertinent client, resource and financial considerations supports the decision to transition to a new RIA, advisors can confidently commit to making a move to independence.

Assessment & Commitment	
Self-Assessment	• What are your motivations behind considering a change? • Is establishing an independent RIA the right next step for our clients and team? • Have you considered both the pros and cons of independence?
Client Assessment	• Will your clients follow you to a new RIA? Are there any that you would prefer did not? • If you chose to remain at your current firm, will they stay? • Do your clients consider their relationship to be with you or with your firm? • What do your clients value most about their current relationship? Can this be replicated or improved upon as an independent RIA?
Resource Assessment	• What resources does your current firm provide that free up your time for relationship management and prospecting? • Can you assemble the resources that will adequately support your clients? • Have you considered partnering with other advisors that may complement your skills? Would these collective skills provide greater value and personal return than remaining solo?
Financial Assessment and Economic Modeling[1]	• Will you have adequate start-up capital? • Are there any restrictions or financial obligations in place with current your employer? • What percent of your client revenues are recurring (fee-based)? Can you transition any/all commission business to fee-based?
Commitment	• Based on these assessments, is establishing an RIA the best option for you and your team? • Can you make the commitment both during transition and post-transition?

[1] See Appendix A for baseline estimates of RIA start up and ongoing expenses.

Business Model Design

A structured view of your business model and business plan.

The concept of a "business model" within the RIA industry often refers to the structural choices available to advisors: fee-only or hybrid; independent RIA or joining an established entity. With the growing number of options available to advisors today, these are certainly important items to consider and weighing the pros and cons of each is a clear first step. For the purposes of this paper, we make the assumption that the advisor has committed to establishing a new (hybrid or fee-only) RIA.

Beyond this initial decision, an RIA's "business model" is a more meaningful depiction of what your firm plans to do and how it plans to make money. A critical step for any entrepreneur involves thinking through each element of your business model because each is an area that requires decision-making and ultimately has the potential for future innovation. Distilling down the various components of the RIA business model helps the advisor visualize each potential area of decision-making within your firm.

Prior to a transition (particularly one that is time-sensitive), it is sufficient to focus primarily on the elements of the business model that will directly impact the transition. However the business model framework laid out here will help organize an advisor's thinking during the transition and should be detailed enough to serve as the basis for a business plan. This process should also help identify decisions that need to be made early in the process as well as guard against decisions that may affect current (or future) elements of an advisor's plan.

Why has business model design become increasingly important for RIAs?

1. As the industry matures, more importance will be placed on justifying fees and clarity of client value creation.
2. Increased competition and expense pressure will require more deliberate decisions around pricing and service delivery.
3. The RIA industry offers robust opportunities for external partnerships (custodians, consultants, outsourced back office, software vendors) which should be exploited and incorporated into the RIA's activities in a strategic manner.
4. A clear view of the RIA's business model will improve your competitive position and institutionalize your activities, which will translate into increased enterprise value, improved transferability and improved options for succession planning.

Value Proposition. An advisor's value proposition is a promise of value made to clients that the advisor believes it can deliver profitably. The value proposition is a fundamental element of business model design and business strategy because delivering "value" profitably, after all, is the key to staying in business.

Revenues. Determining the source(s) and the nature (e.g. recurring or non-recurring) of revenue streams is fundamental to the RIA business model. Advisors may utilize a number of methods to charge for your ongoing services including: asset-based fees, performance fees, fixed fees, fees based on client net worth or (for hybrid RIAs) revenue trails. Non-recurring revenues may include initial commissions, fixed or retainer-based consulting fees or hourly financial planning fees.

Cost Structure. An RIA's cost structure is a combination of fixed and variable expenses necessary to deliver your services. The ratio of fixed vs. variable expenses should be monitored and managed against the stability of the business. Advisors should limit fixed expenses early in your RIA's life cycle. As the firm matures and revenues stabilize, larger fixed expenses will become necessary. Capturing and monitoring these expenses begins with a pro forma created prior to a transition that will continue to support management reporting, budgeting and decision making.

Client Relationships. As a service-based business, establishing relationships that meet client needs and expectations is paramount to the success of an RIA. The extent to which these relationships are customized is a decision that advisors must make. By establishing multiple service levels that align with pricing, RIAs can maintain more stability in your profit margins and build scalability within your business model.

Client Segments. There are multiple client segments that an RIA may seek to target. Segmentation methods for advisors may be affluence-based (retail, mass affluent, high net worth, ultra high net worth) or life stage-based (retirees, near-retirees, future affluent) or individuals within a specific industry. Advisors may also target institutional clients. Advisors should identify specific target markets with needs that fit with your capabilities and service models.

Distribution Channels. An RIA's distribution channels include each of the ways in which you plan to connect with prospective clients. These may include client referrals, networking activities, promotional efforts, or prospecting activities. One additional channel that can easily be overlooked is existing clients (i.e. determining if your firm is, in fact, a client's primary or sole advisor.)

Always be mindful of how current decisions will impact the long-term enterprise value of your RIA.

Key Resources. Key resources can be thought of as your RIA's "assets", both tangible and intangible. Early in an RIA's life cycle, these typically include financial assets (cash reserves), human and intellectual capital (advisory team, relationships and capabilities) and technology (both hardware and software). Over time, an RIA will add to these and will ideally develop additional intangible assets (reputation, firm culture, processes). To realize your full potential, you should always be mindful of how current decisions will impact the long-term enterprise value of your firm.

Key Activities. The activities that an RIA performs will stem from the services that you choose to offer. Advisors may decide to provide investment management services or may chose to utilize outside managers and products. Other choices may include financial planning services, investment consulting, family office services, insurance or trust services. To support each of these offerings, an RIA will need to assemble a combination of people (either staff or through partners), process and technology.

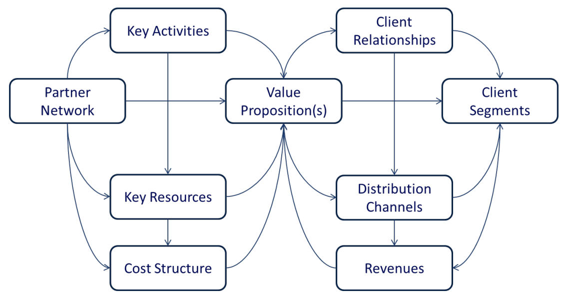
Partner Network. Partnership opportunities within the RIA industry are plentiful and should be carefully selected. You are creating a "dream team" that will replace the infrastructure that your previous employer provided. Custodians continue to expand their service offerings to support advisors on their platforms. Innovative outsourcing solutions are continually surfacing as well. And there is a rich set of specialist consultants available to help support RIAs in areas like compliance, operations, marketing and technology. The custodian will be your most critical partner, so evaluating and selecting one should take priority in this process.

Custodian Fit

When speaking with prospective custodians and assessing potential fit with your firm, be upfront and frank about your business plans and investment activities. (Show them your business plan!)

The value behind this framework is that it organizes your thinking around the nine distinct components of your business. With this structure in place, you can begin to see how each component either supports or conflicts with others. For the transitioning advisor, we suggest that you take a first pass through this framework and use each component to develop the elements of your business plan. It is also advisable to seek assistance from trusted sources to review your business plan as early as possible in your transition process.

Elements of your Business Model



Source: Osterwalder and Pigneur, *Business Model Generation* (John Wiley & Sons, 2010)

Business Model Design	
Design your business model	Define each element of your RIA's business model: Value Proposition · Customer Segments · Key Resources Revenues · Distribution Channels · Key Activities Cost Structure · Client Relationships · Partner Network
Draft a business plan[2]	Create a formal business plan to share with trusted sources, including prospective custodians, service providers and consultants.

[2] We provide an RIA business plan template in Appendix B.

Legal & Registration

Creating and Registering your RIA

Form ADV

Regulators can easily spot an ADV containing "in-a-box" language. It MUST be customized to your RIA.

If you have not already done so, you should determine an appropriate organizational structure for your firm and establish the legal entity that will ultimately become the regulated RIA. Consider tax, partnership, investment and exit planning scenarios before jumping into a legal structure.

To commence operations, advisors must register their firm as a Registered Investment Adviser (RIA) with either the U.S. Securities and Exchange Commission ("SEC") or with one or more State Securities Regulators. State regulators generally oversee advisors with assets of under $100 million (with certain exceptions).

The registration process for a new RIA starts with the business model you have created to serve as the foundation for building your firm. Preparation and filing of Form ADV 1, 2A, 2B and all applicable schedules with the appropriate regulatory bodies (SEC, state, or multiple states) is a critical step in the registration process. Regulators will expect that you provide *detailed* and *specific* about your business practices, services and fees. Regulators recognize when your firm relies on too much "in-a-box", stock disclosures and related content. Be sure to obtain the necessary expertise to draft a detailed and specific description of your RIA's offerings, business practices and fees. Remember, you provide this document to *every* prospect and to each client annually. It should fully align with the positioning of your firm.

In addition to registering your firm, you will also have to determine which of your employees will be designated an Investment Advisor Representative (IAR) for your firm as well as the designated Chief Compliance Officer (CCO). (Each RIA needs at least one IAR.) Essentially any person that provides advice, has regular client contact and/or is involved in your investment process will be expected to be named an IAR. IARs must either pass or receive an exemption from the Series 65 or Series 66 examinations. Generally, all owners are expected to register as IARs, unless it can be formally demonstrated that the owner is a passive investor.

This is one of the most challenging aspects of getting a new advisory firm established. With the numerous laws and regulations as well as proposed changes to legislation, it is advisable to seek the assistance of a compliance and regulatory professional.

Legal & Registration	
Establish Legal Entity[3]	This will become the regulated entity, or "advisor". Please seek legal advice prior to selecting a particular structure for your RIA. Consider tax implications, future ownership and your long-term exit plan when making your decision.
Determine State vs. SEC Registration	This determination is primarily based on your current (or anticipated) regulatory assets under management, as well the states in which you expect to be doing business. As a result of the Dodd-Frank Act, new RIAs with regulatory assets under $100 million are expected to register with the State Securities Regulators and not the SEC. There are certain exemptions that may qualify your firm SEC registration.

[3] See Appendix A for a comparison of various legal entities.

Form ADV Parts 1 and 2	• Regulators require detailed and specific descriptions and disclosures about your business practices, services and fees. • Consult a regulatory consultant and/or the regulators for guidance. • Form ADV 1 is a public listing of your advisory business on the SEC website, detailing your assets, services, fees, and other statistical information. • Form ADV 2A is the "Disclosure Brochure" that is provided to all prospective clients and at least annually to all clients. The Disclosure Brochure is a customized, plain-English narrative of your business model, services, fees, and background of your firm. • Form ADV 2B is the "Brochure Supplement" that must be prepared for each advisory person to demonstrate their background, capabilities, conflicts and financial background.
Research Requirements	SEC and State regulations vary. Unfortunately, rules also vary across states. Examples include the differences in the requirements for fee billing, client contracts, privacy rules, financial requirements, and many other areas. You *must* understand the regulations in all states in which you conduct business, NOT just your home state.
State RIA Requirements	The State regulators also require supplemental information about your business, which may include balance sheets, surety bonds, capital requirements, specimen client contracts, copies of your customized compliance manual, business continuity plan and other requirements for the RIA.
Investment Advisor Representative (IAR) Registration and licensing	• Arrange Series 65 or 66 examinations or determine your eligibility for any examination waiver. • Most states require filing of Form U-4. Additional requirements may include fingerprints, affidavits, FBI background checks and other requirements.
Managing the Registration Process	**Be Prepared.** The regulatory agencies (SEC and States) are generally understaffed and have considerable back logs for new registrations. The timing of SEC to State transitions is not helping these over-burdened agencies. When preparing for an initial registration, it is imperative to provide a complete and accurate registration package and *proactively* point out any areas that may be unique to your situation.
Timing for Launch	• The timing and duration for registration will vary dramatically from state to state (and even week to week within a given state). Timing for your filing will depend not only on the quality of your registration materials, but also on the workload of the examiners. This is an area where registration and transition consultants are critical. • A regulator's experience with a particular consulting firm and consultant will go a long way. While the states don't offer favors, experienced consultants maintain these relationships and proactively stay ahead of the state's current requirements and preferences. • A well-informed consultant will not only be a valuable liaison, but will provide the critical project timing and management to meet a launch date. Remember that all decisions are based around the timing for launch.

Compliance Program Design

Weave compliance into your daily activities and systems

All RIAs are required to have a compliance program that is designed to prevent, detect and correct violations of the respective securities laws. You will need to designate an IAR as your CCO, who must be both competent and have the ability to enforce your policies. Your compliance program will serve as a guide for your firm's ongoing compliance responsibilities. An effectively-designed compliance program should lay out each of these requirements as well as the policies and procedures you will follow throughout the year including:

- Maintaining registrations for the firm and IARs
- Reviewing and updating procedures and internal controls
- Evaluating service provider performance and risks
- Client reviews and validating goals/suitability
- Reviewing books and records
- Monitoring for changes in securities laws that affect your firm
- Review of advertisements, websites, blogs, social media, etc.
- Code of Ethics and employee certification and training
- Routine assessment of the effectiveness of the compliance program

When regulators approach your firm for a review, compliance program documentation will be the first item they will request. They will then review documentation for evidence that each activity has been performed during a sample time period. It is critical that you not only perform each of these tasks, but also document the details around each activity (i.e. Who did it? When? What was the outcome? Was there any remediation needed?) From the standpoint of a regulator, if you did not document an activity, then they have to assume that it did not occur.

Perform and Document

In the eyes of a regulator, if it is not documented, it didn't happen.

In our experience, when compliance is relegated to "one day per month" or quarter, that day usually never comes. Instead, you should seek ways to integrate compliance into your daily activities. For instance, your trading process should incorporate the (digital or physical) storage of all order tickets and confirmations. Your client service process should include processes to store presentation materials and inputting client meeting details in your CRM. If properly designed, the vast majority of sound business practices will also support compliance and regulatory requirements, which effectively reduces your risk and compliance burden.

When your entire team understands your firm's compliance requirements and appreciates their importance, you can be fulfilling your responsibilities with limited disruption to your business.

Compliance Program Design	
Design your Compliance Program	• Design a compliance program that incorporates your specific business model and activities. • Maintain Books and Records. Where will you store your records? Consider data privacy, backup and accessibility. A secure intranet site can be one of you best investments you can make. • Social media. Will you be utilizing social media outlets to interact with clients or prospective clients? How will you archive these activities?
Design your Compliance Program	Your compliance program should at least include: Written Supervisory Procedures Code of Ethics Privacy Policy Business Continuity Plan Client Agreements Books and Records Retention Plan Email Monitoring and Retention Investment Policy Statements Annual Testing and Assessment Plan Advertising and Social Media Retention
Develop a plan to implement your compliance program	• Develop a "year in the life of compliance" for your firm. • Ensure that your CCO (and their designees) understand the importance of following and documenting the practices in your compliance program. • Develop a "Compliance Calendar" to manage your ongoing compliance tasks • You will need a secure place to manage your compliance program activities. Keep a diary of compliance activities, changes and issues to evidence the strength of your compliance commitment for the regulators.

Technology and Operations Planning

Get it right the first time!

Planning for your operations and technology infrastructure is a critical step in the business building process. Getting your firm off to the right start will certainly pay dividends. Many new RIAs struggle with these decisions, primarily due the overwhelming number of options.

When planning for your operations and technology strategy, consider these factors:

- Current competencies and service offerings
- Available internal resources
- Current budget
- Future growth plans and service offerings

Many of the decisions that you will make at this stage will become tougher to change as your RIA grows. With active client relationships and systems full of client data, future changes to your technology and operations infrastructure will become more expensive and time consuming. In the long run, it is less expensive to invest the time and resources into getting these decisions right at start up.

Facilities. It is never too early for you to begin to search for office space. We recommend using a commercial real estate agent that will provide you with options that will best fit your needs. In most cases, we find that advisors will be best served going with “Class A” office space, although higher quality “Class B” may be work. How many square feet will you need? A good rule of thumb is around 750-1000 SF per employee. Once your office space is identified, you can then move on to purchasing furniture and office equipment that fit well in your new space.

Internet and phone systems will be on your list for critical day one needs. We recommend VoIP (Internet-based) phone services based on their low startup costs and limited hardware needs.

You are in the investment business not in the IT business. In virtually all instances, cloud-based infrastructures are the way to go.

IT Infrastructure. Unless your RIA is running a particularly data-intensive investment process, we strongly suggest cloud-based IT infrastructures. With the increasing options for Software-as-a-Service (“SaaS”), it is really no longer necessary to “own” or “administer” servers. For relatively little money, you can avoid the headaches that come from maintaining servers and a physical network infrastructure. Cloud-based email services and document storage (e.g. Box.net, Dropbox or Google Docs) are relatively easy to set up and will satisfy the security and books and records retention requirements for your new RIA.

Software. After selecting a custodian, your next decision should be your CRM. Your CRM should become the “heart” of your firm. There are a number of incredibly powerful options available that will not only manage your client information and correspondence, but will also serve as a platform for developing workflows and processes. (Keep in mind that client correspondence and day-to-day tasks are subject to regulatory books and records rules so this data must be organized and archived for specific periods.)

Next, conduct a full assessment of your front and back office needs. Will you use custodian interfaces or require 3rd party systems to facilitate your front office activities? Which specific tools will you need to perform your investment process? Who will handle your back office? Do you have the right tools and personnel in place? Will you provide regular reporting to your clients? Will you leverage the custodian reporting? How will you bill your clients? Do you have a system in place to facilitate the administrative and compliance aspects of client billing?

When selecting vendors, research the extent to which they integrate with each other, as well as with your custodian. The term “integration” may mean different things to different people. “Lite” integration, for instance, often simply means “single sign on” capabilities. Some integrations rely solely on data feeds between two programs, often with human intervention which has its obvious flaws. "Application Programming Interface" (API) or web service integrations expose data from one application to another (ideally 2-way delivery) on a daily (“asynchronous”) or real-time (“synchronous”) basis. “Full” integration will have all major functions updating in a real-time/2-way sync, with checks and balances and no human intervention.

Perform a cost/benefit analysis for outsourcing any non-core activities within your firm. Unless an activity is core to your client value proposition, outsourcers may reduce the technology and personnel costs of maintaining internal resources to carry out certain activities.

Technology & Operations Planning	
Set up your firm’s facilities and operations	• Lease office space • Purchase furniture • Set up office and mobile phone system (Internet-based VoIP services are preferable and limit need for hardware) • Set up utilities, including Internet provider • Purchase office tools including printer, scanner, copy machine, back-up power supply
Set up you firm’s technology infrastructure	• Consider cloud-based options! • Select an email provider and email retention system (for regulatory purposes) • Select a common operating system for desktops and laptop. To protect client information, ensure adequate safeguards on any technology that can leave the office (including mobile devices). • Determine where documents will be stored for ease of access and books and records retention.
Determine your software needs and select vendors.	• Identify front office needs and select vendors (CRM, financial planning, investment research, portfolio management, document management, rebalancing software, reporting, compliance, account aggregation, client portals.) Be sure to secure tools that integrate adequately with each other and your custodian and fit your needs for customization. • Identify back office resources and needs. (Reconciliation, reporting, client billing, accounts payable/receivable administration, accounting) • Consider outsourcing. Any non-core activity within your business model is a candidate for outsourcing.

Planning for Growth

An idea without a plan is just a dream

By this point you have most likely spent time envisioning how you would like to grow your firm. Prior to launch, we suggest that you develop a few of the key components of strategic and marketing planning since the messaging here will be used in your collateral material, website, etc.

The Keys to Compliant Marketing

1) Truthfulness and accuracy

2) Maintaining copies of all advertisements (for at least 5 years from last use)

3) Documenting who/how each is distributed

4) No Testimonials!

Competitive Positioning. Until you have the time to devote to more comprehensive planning, there are a few foundational components that should be laid out now--who you are and how you plan to differentiate your RIA. This begins with drafting your value proposition (a topic that was covered in *Business Model Design*). With this as a starting point, put some thought into who your primary competitors will be and how you plan to differentiate your firm.

Business Development Planning and Tactics. As you have developed your existing client base, you have probably formed a good sense of which types of clients best fit your advisory business. When we say "fit", what we mean is "do they have needs and expectations that match with your value proposition?" As you begin to develop your growth objectives and tactics you will employ to target new business, keep this sense of fit in mind. Are there particular segments that will likely have similar needs? How can you target them? Are there particular "centers of influence" that you can identify as key referral sources?

Defining your service offerings and pricing for each deserves special attention at this point as well. Not only is this required for your Form ADV filing, but creating alignment between your offerings and pricing will add structure to your marketing efforts and will help make your firm more scalable.

Collateral Materials. These well thought-out ideas of who you are and how you are different should now be placed into words ("messaging") and collateral materials. These may include your website, marketing brochure, presentation materials. Depending on resources, this is an area where a design and branding expert will pay dividends. It is often a good idea to seek the advice of professionals in this area to ensure you have a consistent branding and presence across print, web, and other channels.

Compliance and Marketing. There are several key differences in the advertising for a Registered Investment Advisor as compared to FINRA regulated firms. The foundation of Rule 206(4)-1 of the Advisers Act is Truthfulness and Accuracy. There is no pre-approval of advertising materials by any regulatory agency, as you may be accustomed to with FINRA. RIAs are required to understand all the applicable rules and disclose all conflicts of interest relating to advertisements. RIAs may advertise past performance, but are required to follow specific guidelines in the quoting of performance, the calculation methodology and the presentation. RIAs must retain all advertising materials pursuant to the books and records rules under Rule 204-2 of the Advisers Act and applicable state regulations.

Planning for Growth	
Determine your RIA's competitive positioning	• Define your value proposition. • Clearly articulate how your services differ from those your competitors will offer to your clients. • Identify three words that you would want your clients and prospects to associate with your RIA. • Define the "pillars" of your brand.
Create a plan for your business development efforts	• Select which segments you plan to target. • Identify the unique needs these segments possess. • Determine how your capabilities satisfy these needs. • Define (in detail) your "ideal" client. • Determine how you plan to price your services. • Determine which sales tactics will plan to emphasize. • Consider including social media strategies into your efforts.
Produce marketing materials	• Consider hiring a design firm to create your firm's logo. • Select a color palate and fonts to be used across all of your materials. • Consider drafting a "tagline" for your RIA. • Hire a firm to develop your website and social media outlets (e.g. Twitter company page, Facebook page). • Create a capabilities brochure, pamphlets, and presentation materials. • Ensure that you have consistent and deliberate messaging throughout your marketing and compliance materials. "About Us/Firm History — Investment Process Description Mission Statement — Offering(s) & Service Model(s) Key Points of Differentiation — Key Staff Biographies

Transition Planning

Making the Move

The actual transition process will probably be the most stressful part of your move to independence. The choreography of each task, managing clients' expectations, and managing your own stress levels are the critical factors during this phase of your journey. A detailed project plan will alleviate some of this stress and will convey a confident message to both your team and your clients.

As you plan your transition, be careful as to how and when you do your planning. Do not use company resources (phone systems, email, web, etc.) Plan activities on your time (not on your employer's time). As a FINRA- or SEC-regulated advisor, you are required to disclose outside business activities.

Your plan should include each critical task, client communication plans, time lines and any dependencies that you or your transition partner have identified. Develop a timeline that details the "who, when and how" for client communications. This client outreach plan is a great opportunity for you to triage your clients (i.e. based on fit or profitability) in a way that could (positively) impact the final list of those that transition.

If your transition plan requires that your RIA be set up prior to your resignation, RIA incubation may be something you should consider. Compliance or law firms can often implement a process that would ensure discretion throughout your transition so that your current employment is not disrupted.

Transition Planning	
Determine the appropriate staging for your transition tasks.	• Consider any constraints with clients, employer, holidays, and family commitments. Make sure you cover all your bases as you do not want to leave your new RIA clients unattended. • Be sensitive to "information triggers" like your Form U-4 filing, which will trigger notification to your old firm. • It often makes sense to stager departures to assist in getting the business rolling. • Consider non-solicits, communications with future partners, and registration implications. A significant change in ownership (25%) can trigger a new registration and be a major setback. • Consider RIA incubation if timing or secrecy are critical.
Create a plan.[4]	• Create a project plan with critical tasks, client communications, realistic time lines and dependencies to ensure a smooth transition. • Plan your post-transition client communications. • Conduct "dry runs" to familiarize yourself with the process, workflow and system. Don't make mistakes on your first or "best" clients. • Communicate with your transition partners and leverage their resources. Most custodians have very talented transition teams that will assist you with most operational aspects of your transition. Be sure that they are ready to move when you are.
Be mindful of any legal considerations.	• Who owns the relationships with your clients? Carefully review all non-competition, non-solicitation and other employment agreements. Seek legal counsel on anything that is unclear. • Follow the Broker Protocol (if applicable). The Protocol states that a registered representative from a participating firm is prohibited from taking detailed information about clients, included, but not limited to social security numbers, account numbers and position statements. Generally, only basic contact information is allowed (Name, Address, Phone, etc.)

[4] See Appendix D for a sample RIA transition timeline.

Post-Transition

The Pillars of Long Term Success

1. Make Planning a Habit.

Your RIA will likely be your largest asset. Treat it the way you want your clients to treat their investments: with planning, discipline and keen attention on opportunities and risks.

Businesses can be thought of as analogous to the investment processes that you manage or evaluate. With each, process is the essential element that determines the likelihood of future success. And in the absence of a rigorous, deliberate process, you may logically assume that positive historical results may have been the by-product of luck or fortunate circumstances.

The same is true for businesses. Entrepreneurs must devote some resources to thoughtful and deliberate business planning for their firm, as well as within each part of their firm, including operations, technology and marketing.

Strategic planning is not something that comes naturally to most people. Day-to-day client or investing activities will always take precedence and, because of this will quickly take over 100% of your time. The purpose of strategic plans is to make room in your calendar to look beyond the tactical and to be sure that you are doing the right things for your team and your clients' long term benefit.

2. Create a Culture of Risk Management.

World-class policies and procedures and cutting-edge technology are great, but by themselves offer little protection from business risk. The most reliable method that we have seen to mitigate risk within organizations is to create a "culture of risk management". This is a process that begins at the top and, when executed well, will infiltrate your organization until it becomes part of your firm's core. Leaders of advisory firms can begin this process by communicating the importance of compliance procedures and operational controls and always bringing these concepts back to the most important component of your business model: the client. Below are some examples of practices that will help mitigate regulatory, legal, operational and financial risks within your advisory firm.

- Commit to your compliance program.
- Conduct periodic "mock examinations". RIAs should periodically perform a mock regulatory examination to ensure the adequacy of their compliance procedures, as well as the availability and accessibility of their books and records.[5]

[5] The SEC has adopted a "risk-based" approach to their examination program. This means that *when* your firm is audited, the SEC will assign your firm a risk rating based on the number of deficiencies that they cite. A higher number of deficiencies will result in a higher risk rating and subsequently, more frequent examinations going forward.

- Develop an employee handbook that lays out your human resource practices. Work with your attorney or an HR consultant to incorporate any federal or state employment regulations.
- Periodically review your business insurance policies (Errors and Omissions, property and casualty, surety bond, ERISA bond)
- Develop an operations manual that details each of the critical processes within your firm and the controls around each of these processes (e.g. portfolio construction and oversight, pre- and post-trade compliance.)

3. Manage your resources vigilantly.

While strategic planning helps you "do the correct things", operational planning helps you "do these things correctly". Here are some ideas to consider that will keep you firm running smooth and efficiently:

- Leverage technology to reduce risk and keep costs down.
- Integrate compliance into your day-to-day activities.
- Consider a secure Intranet site to help you manage day-to-day information.
- Evaluate where your time is best spent. Consider outsourcing certain functions.
- Embrace change by developing a continuous improvement model that focuses on process improvement and efficiency.

Appendix A

Operating Expense Estimates

Utilizing our *RIA Startup Expense Tool*, we calculated startup and ongoing expenses estimates for an RIA with the assumptions listed below. The amounts below are "base" summary estimates for each expense category based on client experience and industry sources[6]. Our *RIA Startup Expense Tool* can be calibrated to reflect each RIA's specific needs and circumstances.

	Assumption
Total AUM	$75 million
Employees	Three (two advisory staff, one support staff)
# Accounts	125

	Start Up Expenses (Base)	Ongoing Expenses (Base)	Notes
Compensation (Non-advisory staff only)	NA	$40,000	Will vary significantly.
Operations & Facilities	$17,600	$37,100	Startup includes up front lease expense, furniture, office supplies (e.g. copy machine, scanner, printer) Will vary significantly based on location.
Technology, Software, Support	$10,000	$35,000	Ongoing estimate assumes third party licenses for: CRM and software for financial planning software, portfolio management system, rebalancing, account aggregation, document management, email/social media archiving and client portals. Bundling or use of custodian-based solutions can reduce this estimate
Compliance	$10,000	$6,000	
Legal	$1,500	$1,000	
Insurance	NA	$14,300	Includes E&O insurance, health insurance, and P&C
Business Development	$7,000	$15,000	Startup includes website development and collateral materials. Ongoing includes advertising, travel and entertainment. Will vary based on specific circumstances.
Client Service	NA	$10,000	Ongoing includes client travel and entertainment. Will vary based on service model.
Total	**$46,100**	**$158,400**	

[6] Special thanks to Reid Stone at AdvisoryQuest (AdvisoryQuest.com) for providing certain expense estimates for technology tools.

Appendix B

RIA Business Plan Template[7]

I. Executive Summary

A brief (2-3 paragraphs) overview of your RIA, your founders, your approach and philosophy on delivering wealth management services and your objectives.

II. Mission Statement

A clear, concise statement that articulates why your advisory firm exists. It may include specific references to the types of clients you serve, your investment offerings, approach, or competitive advantage. Essentially, a mission statement declares how you perceive your firm and how you wish to be perceived externally.

III. Value Proposition

Your value proposition is a promise of value made to your clients that your firm believes it can deliver profitably.

IV. Firm Overview

a. About our Firm

A paragraph describing your firm, its ownership structure and key staff.

b. Our People

Biographies of key staff (including advisory and operations staff)

c. Key Partners

Provide a detailed list of the key partners (both current and planned) that you have identified as being key to executing your business plan. (e.g. custodian, broker/dealer, outsourcing partners, referral sources, etc.)

d. Key Resources

Provide a detailed list of the key resources (both current and planned) that you will employ in executing your business plan (e.g. software tools, consultants, etc.)

V. Service Offerings

a. Description(s) of each offering

Provide details on the specific services that you plan to provide and any distinct service levels that you expect to establish.

b. Investment Process

Describe the process that you follow to evaluate client objectives, profile their risk tolerance, and determine which investments would most appropriate for them.

VI. Business Development Plan

a. Competitive Positioning

A detailed review of your RIA's primary competitors and how you plan to differentiate your firm.

b. Target Markets

A detailed review of the specific target markets that you expect to emphasize.

c. Sales & Marketing Tactical Overview

An overview of the sales and marketing activities that you plan to employ to grow your business.

VII. Summary

A simple summary of your business plan and next steps towards building out your firm.

[7] Prior to showing your business plan to other parties, it is common practice to request that they sign a confidentiality agreement. Please email us at advisor@advisorassist.com if you would like us to provide a sample.

Appendix C

Attributes of Various Legal Entities

	C Corporation	Subchapter S Corporation	Limited Liability Company	General Partnership	Sole Proprietor
Owners have limited liability for business debts and obligations	X	X	X		
Business duration can be perpetual	X	X	X		
May have an unlimited number of owners	X		X	X	
May be owned by another business, rather than individuals	X		X		
May issue shares of stock to attract investors	X	X			
Owners can report business profit and loss on their personal tax returns		X	X	X	X
Permitted to distribute special allocations, under certain guidelines			X	X	
Not required to hold annual meetings or record meeting minutes			X	X	

Source: Incorporate.com

Appendix D

Sample Transition Timeline

A typical transition will take about six to eight weeks. The primary factors that will impact this timeline include: SEC or State registration processing time, complexity of your transition, and advisor responsiveness throughout transition process.