Making the Break

Successful breakaway RIA firms reveal the catalysts behind their shift to independence

One Hollywood storyline repeatedly strikes box office gold: a handful of work colleagues lament the limitations of the company that employs them, and they together convert their frustrations into a bold leap to independence—a move which (after many dramatic twists) leads to astounding success. What's notable is that a somewhat similar storyline is playing out in real life, with increasing frequency, right here in the financial advice industry.

In 2016, more than 400 teams—each formerly part of a large financial institution—made the break to form independent registered investment advisor (RIA) firms.* In the wealth management sector, independence is attractive and is one major reason why the once-fledgling RIA model has become the fastest-growing structure among traditional wealth management firms. In fact, by 2018, the RIA model is projected to achieve a 28% asset market share.*

To better understand the real-life dynamics behind this trend, we recently interviewed the leaders of three successful breakaway firms for our "Secrets Behind Success" video series.

These three firms could not be more different on the surface: one has offices in several different cities, another is headquartered in a small midwestern city, and the last serves clients in a densely populated northeastern city. And yet, based on my working relationships with numerous breakaway RIAs in recent years, their catalysts for action have similarities that reflect three common themes:

Seeking to Prioritize Client Service. By nature, large financial institutions must establish a myriad of rules to ensure consistency and compliance across a broad universe of advisors. The trade-off, of course, is that some advisors may not feel they have the flexibility or decision-making authority to address specific client issues. At the core, these advisors are driven by a desire to better serve their clients. For Jack Petersen, Founder and Managing Partner of Summit Trail Advisors, the event that triggered his movement toward independence was a complaint call from a client.

Stepping Back and Taking Stock of Career Goals. Some advisory professionals remain with large financial firms simply because they have mastered the company's business processes and culture. They are comfortable—so they may never pause to carefully consider their actual goals. For Margaret Dechant, CEO and Partner of 6 Meridian, the spark that led her and her team to break away was ignited about two years ago when a consultant asked a deceptively simple question: "What do you want to be and where do you want to go?"

Seeking to Make Client Relationships and Transparency Preeminent. At the most basic level, the move to an RIA model involves three critical shifts: from a product focus to an advisory focus, from a suitability standard to a fiduciary standard, and from a commission-based to a fee-only compensation model. Each shift translates to a more transparent, trusting relationship. For Michael Piotrowicz, President and Senior Client Advisor of Legacy Advisors, the impulse to break free came when he weighed the significant advantages and legacy the independent RIA model could provide.

Whether the catalyst for change arises from a client's complaint, a consultant's question, or personal reflection about better ways to partner with clients, many wirehouse advisors never take the next step to break free because they are unsure about running a business operation successfully. Or they have concerns about their ability to retain their existing clients or attract new ones. One of the most satisfying parts of my job is to work with advisory firms to sketch out a plan, identify resources and strategies for success, and launch a new firm.

As you'll see in parts two and three of our Secrets Behind Success video series, the first steps toward independence are critically important, as are actions taken in the first 90 days. Stay tuned for more videos in this series, which highlight critical topics impacting leading advisory firms today.

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