FIDELITY INSTITUTIONAL INSIGHTS

Pathways to Success for Emerging Advisors

Exploring a variety of growth and scale options for small firms

For emerging advisors (for the purposes of this article, those with <$150m AUM), building a business can be an exciting endeavor. It can also be an exhausting one, however, as advisors find themselves juggling multiple roles (investment director, financial planner, business developer and marketer, etc.) to develop infrastructure to help clients attain long-term financial security and happiness.

So how can emerging advisors achieve growth and scale in their business when the path to success is filled with hurdles (hiring top-tier talent in a competitive marketplace, overcoming regulatory challenges, investing in cutting-edge tech to service clients, finding efficiencies in back office processes)?

In order to scale effectively, emerging advisors may consider different business models and solutions to help them grow their businesses and allow them more time to deliver services for clients at the higher end of the Advice Value Stack®.

Original model created by Bain and Company, "The Elements of Value," by Eric Almquist, John Senior, and Nicolas Bloch, Aug. 8, 2016. Source: Fidelity Investments.

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There is a wide range of options available to emerging advisors, from a do-it-yourself (DIY) model where everything is built in house to tucking into an existing firm or platform to leverage their amenities (and everything in between, including outsourcing certain functions or services to third-party solutions, platforms, or providers).

In this article, we'll explore a few ways in which emerging advisors are navigating various small business challenges to meet their needs and goals (both business and personal).

Utilizing an integrated investment management platform

While the term "outsourcing" may carry a negative stigma in the wealth management space, using outside resources, solutions, and/or specialists is an avenue explored by most advisory firms. Take investment management, for example. According to our 2021 Fidelity Outsourcing Study, 74% of advisors outsource investment management to some degree (for 1%+ of their clients).[1] It's important to note that outsourcing is not an all-or-nothing proposition. Here, for example, the decision to use a model portfolio solution may depend on the size of the client, or perhaps the advisor's desire to offer consistent investment advice across his/her client portfolio.

The business benefits of outsourcing

According to the 2021 Fidelity Outsourcing Study, firms that outsource multiple functions (business development, marketing, compliance, to name a few) see directionally greater asset growth, as well as client/household growth.

As a whole and across channels, advisors are shifting to fee-based business models and emphasizing a focus on financial planning and delivering holistic advice.[2] And Porter Investments, an RIA firm that was established in the late 1990s and based in Houston, Texas, is no exception. The business today consists of founder Bob Porter, as well as an investment advisor representative (IAR) on the East Coast and three support staff. "We have about 200 clients right now," says Porter, "and a little bit over 30 million in assets. We were primarily focused on asset management when we first started the firm, but have since evolved more into a lot of other areas in terms of a more holistic approach, in terms of financial planning and retirement planning [to help us service clients fully]."

As the business owner of a small RIA, Porter experienced several prohibitive forces when it came to growth. "As a small RIA, all your problems that you have are related to the fact that you're small. You have a small technology budget. You have a small research budget. And you're trying to wear ten different hats."

With a background in computer design, Porter understood the importance of technology as a vehicle to grow his business. In particular, he was passionate about the potential of investment software. "I had an interest in investments and an interest in more the financial-type applications of what computers could do, as opposed to the more engineering or the technical side," he says.

By working with his custodian, Porter found an opportunity to utilize an integrated managed account platform, which combined technology and investment management capabilities to help him minimize operational burden while providing custom investment advice to every client.

> "People underestimate how important it is [to have a strong connection with your custodian] because, especially for a small advisor, you don't have the staff to go out and constantly read research reports, or find out about what's happening in the industry, or what people are doing from a marketing standpoint. And so, from a practice management standpoint, there are so many resources that a strong custodian can bring to bear on giving you different perspectives on things that you should be doing, or things you might want to consider doing in your business."
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> Bob Porter, president and founder, Porter Investments

From a scale perspective, Porter appreciates the value in having an integrated managed account platform and the ability to customize investment strategies for individual clients. "Having an integrated platform removes so many things that are not client-facing activities for you. It's really kind of a godsend and I've just started scratching the surface [in terms of the capabilities of the platform]. Twenty years ago, we had the old separately managed accounts (SMAs), and you had a portal where you went on and you picked out different money managers, and everybody has that, but the beauty of an integrated platform is you have the UMA structure, where you have the different sleeve for that part of your business. If you still want to do the SMA-type structure for some of your other clients, you can still do that within the same platform, yet there's some accounts where you think that you have a very specialized approach, and a very unique approach, meaning the RIA is more the portfolio manager. And they can all be integrated together, and the onboarding can be integrated into any one of those types of investment opportunities for clients. It can cover so many different areas that you can go off to in the asset management space. And I think that's really neat."

And having an integrated platform has allowed for the potential for a whole new area of clients to emerge. "Maybe [I'll be able to] initially [engage] smaller clients, where the platform will be able to grow an area business and create a revenue stream for me that I just hadn't thought about," Porter says.

Utilizing technology solutions to build operational infrastructure and deepen client relationships

Newer firms that have recently gone independent may be looking for tools that support a fully digital client experience to help the advisor work more effectively and efficiently. Digital tools might include integrated e-signature capabilities for money movement (i.e. streamlined cashiering, remote money deposit), account opening, transfers of assets, and account maintenance. Emerging advisors may also want the ability to customize their own technology stack to fit the needs of their clients.

Andrea Darden is the president and CEO of Darden Wealth Group, a small RIA based in Ann Arbor, MI. Darden's approximately 140 clients, supported by herself and a four-person team, are primarily women, small business owners, and professors located across 18 states (although the majority are focused in southwest Michigan).

Five considerations in choosing a wealth advisory platform

1. Flexibility and scalability:

Provide flexible options that enable turnkey, out-of-the-box deployment or offer the ability to customize as you scale.

2. End-to-end integration:

Connect the dots from investment planning to portfolio construction to execution without leaving the platform.

3. Smarter portfolio construction:

Access proprietary research and due diligence, tools, and support that fit your business model and make it easier to build better portfolios.

4. Seamless workflows:

Drive advisors' efficiency with integrated workflows that can automate administrative processes, allowing advisors more face time with their clients.

5. World-class service:

Deliver access to world-class advisory consultants who can discuss ideas, challenge assumptions, and help advisors make informed decisions.

"It's a natural market for myself," Darden says. "I have lectured. I taught the CFP courses for a while. My husband's a lecturer. We've been business owners. So, it's a natural market for us to really focus on those three key groups."

And it's the nature of her unique client base, she says, that requires she deliver enough information to keep them satisfied. "And the old saying used to be clients didn't want to know how the sausage is made. I hate that saying. You know, our clients want to know how the sausage is made, right? They want the research. They want the data. And they want us to meet them where they are. For business owners, a lot of time they don't have time, you know, but they have a lot of specialized needs. For women and professors, they want everything from 'We want to know where the data is' to 'I want to know that I'm being taken care of.' So really having that communication up front, and not expecting that every client is the same, is really where we really specialize." She adds, "Some advisors talk about training your clients. You have to train your clients because you work between 9:00 and 5:00, or this or that. We don't believe in that. We really want to know what need that the client has, and how we can satisfy that need. We talk a lot about fighting poor customer service."

But getting clients easy access to financial data can be challenging and may come at a cost, Darden warns. "If you want to provide the best possible solutions, making sure you have the best possible products on the back end for clients, the cost of technology is always increasing, so that's always a challenge," she says. But, she views that data as imperative to the success of the firm. "Whether it's using financial planning software, or it's for performance reporting, or aggregating data, I don't want to cut costs ever on the data that's going to allow us to do our jobs successfully." To deliver that data to her clients and to provide exceptional customer service, Darden built a tech stack with deep integrations in her custodian's open brokerage platform, customizing workflows across technologies to gain a truly flexible and integrated platform. For example, she works with a number of university employees on the 403(b) side and relies heavily on robust integrations that allow her to view in-plan accounts in one place.

Above all, Darden says, "If you really look for growth, the most valuable part of the business is always your people, right? Your intellectual talents and your people talent. Having the right people on the bus is always the most important thing."

To that end, Darden appreciates the value of the tech stack she's built, but more for what it allows her to do: elevate

Technology and the evolving investor

As advisors look to their younger investors as part of the future growth of their business, they also must consider the next generation's preferences and needs, which are different than those of their baby boomer predecessors. For example, 67% of Generation XYZ investors are interested in more comprehensive services from their advisors.[3] These younger investors are much more inclined to consolidate more of their assets with a primary advisor. They're also more concerned about the tech-savvy nature of their advisor, so inefficient technology or operations offerings can be extremely frustrating. An advisor may feel limited by their inability to service clients quickly and easily through antiquated systems, creating a barrier to growing their business and providing value to clients.

What are the top technology challenges facing emerging advisors?[4]

31%

customizing technology to suit the firm's needs

30%

staying up to date on the latest technology solutions

28%

integration of new technologies with existing ones

23%

implementing technology with clients

her team and allow them to focus on deepening their connection with clients. "Technology today is a connector, but it can also be a disconnector," she says. "[Through our technology], we are able to give our clients choices; we don't dictate to them. As a firm, we want a platform and technology that gives us choices to be most successful, where we get to decide how we get to be most successful with our clients, because only [our firm] understands what our clients [truly] need."

Leveraging platform providers and other advisory firms

Sometimes, the path to growth and scale is all about finding a best-fit firm that aligns with an advisor's goals or identifying a platform provider that specializes in partnering with emerging advisors, such as Independent Broker-Dealers (IAR or RR), full service branded RIAs (W2), integrated platform providers, and turnkey technology and compliance providers (1099).

Take R. Meier Wealth Management, for example. Headquartered in Fort Atkinson, WI, this small independent RIA firm consisted of a father (Richard) and son (Mark) duo. Like many small business owners, Mark felt the pressures of having to concentrate on areas of the business other than his clients. And, as his practice grew (he's currently at approx. $100m AUM) to the point where it would have to be SEC registered, he realized he didn't want to shoulder the compliance and regulatory burden by himself.

Through his custodian he was introduced to Advisory Services Network (ASN), a strategic platform provider that, for a fee that starts at 12 basis points and declines as AUM grows, helped him manage the compliance and regulatory aspects of his business so he could focus on tending to his clients. By leveraging ASN he was able to maintain his independence as well as his firm branding, while off-loading some of the "heavy lifting" of operating a business.

Mark's only regret has been the timing of his move to ASN. "I think we were a well-rounded shop and I knew that we could continue to grow our practice significantly. However, that growth meant spending more time on administrative chores and less time with clients. You can build out internally, but that has its own set of challenges. Now, I have a whole infrastructure around my business that allows me to spend more time developing deep connections with clients to help fulfill their personal and financial goals. If anything, I wish I had made the move sooner."

Finding your path to growth and scale

To reiterate, there is no one way to grow. But it's important to note that you don't have to reinvent the wheel yourself. Working with your custodian can help plug you into an ecosystem of outside specialists and solutions that can help chart your path forward for success.

Fidelity solutions for emerging advisors

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Leverage our turnkey wealth advisory solution, Fidelity Managed Account Xchange® (FMAX)	**Connect with our network of wealth management firms via Fidelity Platform Source**	**Realize your own vision with Fidelity's premiere clearing and custody capabilities**

If you'd like to discuss the pathway to success for your firm, please contact your Fidelity representative.

REFERENCES

[1] **The 2021 Fidelity Outsourcing Study** was fielded from April 21, 2021, through April 30, 2021; 451 advisors participated in the study. It was a blind study (Fidelity was not identified in any way) and reached advisors across channels (RIA, B-D, etc.).

[2] "**U.S. Broker/Dealer Marketplace 2020: The Increasing Impact of Culture,**" The Cerulli Report. 2020.

[3] The 2020 Fidelity Investor Insights Study was conducted during the period October 15 through October 24, 2020. It surveyed a total of 1,181 investors, including 560 Millionaires. The study was conducted via a 25-minute online survey, with the sample provided by Brookmark, a third-party firm not affiliated with Fidelity. Respondents were screened for a minimum level of investable assets (excluding retirement assets and primary residence), age, and income levels. Gen X/Y includes those born between 1965 and 1996. Gen Z includes those born between 1997 and 2012. This study included only those Gen Z born between 1997 and 1999 or those who were at least 21 in 2020. This group was included with Gen X/Y for analysis.

[4] The 2020 Fidelity Financial Advisor Community COVID Series—Technology Study. The study was an online blind survey (Fidelity not identified) and was fielded during the period July 10 thru July 16, 2020. Participants included 422 advisors who manage or advise upon client assets either individually or as a team, and work primarily with individual investors. Advisor firm types included a mix of banks, independent broker-dealers, insurance companies, regional broker-dealers, RIAs, and national brokerage firms (commonly referred to as wirehouses), with findings weighted to reflect industry composition. The study was conducted by an independent firm not affiliated with Fidelity Investments.

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