

# THE WALL STREET JOURNAL.

SATURDAY, OCTOBER 22, 2011

© 2011 Dow Jones & Company, Inc. All Rights Reserved.

*Special Advertising Feature*

| SELECTING AN RIA |

## THINKING ABOUT HIRING AN RIA?

*Here Are  
10 Things  
You Should Know*

By *Randy Myers*

If you're someone with a sizeable sum of money to invest, finding an advisor to help with that is easy. Finding one who is legally bound to act in your best interest can be easy, too — if you make sure you work with a registered investment advisor, or RIA.

RIAs are investment advisory firms that register with and agree to be regulated by the U.S. Securities & Exchange Commission. As fiduciaries under the Investment Advisors Act of 1940, they operate under a different and higher standard of responsibility to their clients than any other type of financial advisor. They are legally obligated to act in their clients' best interests, even if that runs counter to the firm's own interests. For example, if two investment products offer the exact same return opportunities and risk profile, but at a different cost, an RIA would be obliged to recommend the lower-cost option. While other advisors may choose to adhere to similar standards — and the SEC has proposed but not yet implemented rule changes that would require it — RIAs remain the only advisors with the legal responsibility to do so. Those that fail to put their clients' interests before their own invite penalties from the SEC, or, in the case of smaller firms, state securities regulators.

Most RIAs are structured as partnerships or corporations. They typically cater to high-net-worth individuals who have complex financial needs that don't lend themselves to a do-it-yourself approach, as well as family offices, retirement plans and other institutional investors. Many are led by former employees of banks and brokerage firms — investment

professionals who left their corporate positions for the freedom and flexibility to set up smaller shops where they could more closely align their services with their clients' needs.

### FREEDOM FOR ADVISORS

Unlike some other types of advisors, RIAs are not obliged to try to sell the products of an employer, nor are they restricted from selling products or services an employer may not offer. They often find that operating independently makes it easier to share informative articles and other educational materials with their clients, since they can establish more efficient compliance protocols than those at larger organizations with multiple lines of business. Finally, most registered investment advisors utilize a fee-based compensation model that rewards them when their clients' portfolios perform well, rather than a compensation-based model that rewards them for selling a particular product or service.

"Typically, the entrepreneurs who chose to work under the RIA model want to get out from under the captive product architecture or regulatory environment they're operating in," notes Bernie Clark, executive vice president of Schwab Advisor Services, which custodies client

assets for many of the country's registered investment advisors. "They like being able to look wherever they want for investments that meet their clients' needs without any pressure to sell specific products or services. They also like being able to offer a level of personalized service that sometimes isn't as easy to provide in a corporate environment."

That enticing proposition has resonated with high-net-worth investors, prompting increasing numbers of them to flock to RIAs over the past decade. That, in turn, has swelled the ranks of registered investment advisors. According to research firm Cerulli Associates, the number of SEC-registered advisors grew by nearly 33 percent from 2004 through 2009, to 16,724. During that same period, assets under management by those firms grew by 59 percent, to \$1.61 trillion.

### RECORD REVENUES

The total number of RIAs declined about 1 percent in 2010, but assets under management continued to rise, growing nearly 17 percent to \$1.88 trillion. Cerulli says the modest decline in the number of advisors could be attributable to two factors. First, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 requires that advisors with less than \$100 million in assets switch to state over-

*(over please)*

THE PUBLISHER'S SALE OF THIS REPRINT DOES NOT CONSTITUTE OR IMPLY ANY ENDORSEMENT OR SPONSORSHIP OF ANY PRODUCT, SERVICE, COMPANY OR ORGANIZATION.  
Custom Reprints (609)520-4331 P.O. Box 300 Princeton, N.J. 08543-0300. DO NOT EDIT OR ALTER REPRINT/REPRODUCTIONS NOT PERMITTED #44777

**DOWJONES**

sight by June of next year, and it is possible that some have already made that change. Also, the number of advisors merging with or being acquired by other RIAs may have jumped last year.

Schwab, which provides custodial services and back-office support for approximately 7,000 independent registered investment advisors, says those RIAs are enjoying record revenues this year, with assets under management growing by about 7 percent to approximately \$750 billion. They have also proved extraordinarily adept at keeping their clients happy; surveys indicate their client retention rates hover in the 98 to 99 percent range.

Still, there are plenty of investors who haven't yet discovered the unique value proposition registered investment advisors bring to the table. Here are 10 things every investor should know about RIAs:

**1. You often can't tell who's an RIA just by looking at their name.** Since many RIAs don't use the term "registered investment advisor" in their name, you may simply have to ask. Alternatively, you could ask to see their Form ADV, a report every RIA is required to file annually with both the Securities & Exchange Commission and state securities authorities in the state or states where they operate. Among other things, this form lists the types of services the RIA provides, the types of clients it serves, how the firm is compensated and whether disciplinary action was taken by securities regulators against the firm. You can also visit the SEC's website and click on the "Check Out Brokers and Advisors" tab to see the latest Form ADV filed by any registered investment advisor.

**Someone you haven't met  
could make a difference in your financial life.**



Discover the difference with a **Registered Investment Advisor.**

Discover someone who offers advice based on what's best for you.  
Someone who works to find solutions that are aligned with your complex financial needs.  
Someone who typically earns a fee based on a percentage of your assets,  
and has a real incentive to grow your wealth. Which means they succeed when you do.

Discover more at [riastandsforyou.com](http://riastandsforyou.com).

Compliments of Charles Schwab. This content is made available by Charles Schwab & Co., Inc. ("Schwab"). Schwab provides custody, trading, and operational support services for independent registered investment advisors ("RIAs"). RIAs are not affiliated with, representatives of, or supervised by Schwab. The purpose of this content is to help educate investors about working with an RIA.

©2011 Charles Schwab & Co., Inc. All rights reserved. Member SIPC. CS14919-10 (1011-6409) MKT64056 (10/11)

## **2. Because RIAs perform many different services, it is important to pick one that's right for you.**

Some RIAs provide investment management services only, while others offer a wide variety of services, from financial planning and investment management to tax planning and reporting, estate planning, even bill paying. Some work primarily with individuals, others with family offices, still others with retirement plans and other institutional investors. Some cater to investors with several hundred thousand dollars to invest, while others focus on investors with multimillion-dollar portfolios. To get the best service, look for an RIA that caters primarily to clients like you and offers the services you need.

## **3. Investment professionals working for RIAs come from many different backgrounds.**

Employees of registered investment advisors are referred to by the SEC as "investment advisor representatives" and have a wide variety of professional backgrounds. Those specializing in financial planning are often Certified Financial Planners (CFPs), while many specializing in investing are Chartered Financial Analysts (CFAs). Some investment advisor representatives are former stockbrokers (also known as registered representatives), bankers or certified public accountants. Whatever their differences, all are bound by the fiduciary standards imposed on RIAs.

## **4. The investment universe available through an RIA is virtually unlimited.**

Because they are not beholden to any one company or its investment products, RIAs are free to recommend any investment product or strategy that is in their client's best interest. Thus, depending upon your circumstances, an RIA might help you build a portfolio that includes individual stocks and bonds, commodities, mutual funds, exchange-traded funds, hedge funds, private equity funds and/or custom investment products.

## **5. RIAs can be compensated in many ways, but they must disclose all sources of compensation.**

Unlike some other types of advisors, RIAs are required to disclose on Form ADV exactly how they are compensated. Some RIAs operate on a fee-only model — this means they are compensated solely by their clients, typically charging an annual fee equal to some percentage of their client's assets. That percentage generally starts at about 1 percent or so and declines as the size of the client's portfolio increases. Some advisors also charge flat fees for special projects or bill-paying services, and performance-based fees. "Fee-based" RIAs may also accept commissions on the sale of certain investment products, as well as referral fees from other professionals, such as accountants and attorneys. Again, though, they must disclose these sources of compensation to their clients on Form ADV.

## **6. RIA compensation models help to align the advisors' interests with those of their clients.**

Advisors who rely on asset-based fees for compensation earn more from each client only when the client's portfolio increases in value. This closely aligns client-advisor interests and reinforces the advisor's incentive to recommend investments and strategies that will best benefit their clients.

## **7. RIA fees are typically positioned as nonnegotiable, but it doesn't hurt to ask.**

Many registered investment advisors adhere to a strict fee schedule from which they will not deviate, both as a matter of fairness to clients and for simplicity of management. "We don't negotiate, period, as our published fee schedule forms the foundation for us to operate with transparency and fairness for all of our clients," states Ken Hart, CEO of Cornerstone Advisors Inc., a fee-only registered investment advisor based in Bellevue, Wash. Still, he adds, that doesn't mean you shouldn't ask a firm if it can adjust its fee. "Based on anecdotal experience," Hart says, "there are RIAs who have published fee schedules but also maintain the discretion to alter their fees if they wish."

## **8. You don't need to be a millionaire to work with an RIA.**

Most RIAs require that their clients invest some minimum amount of money with them so that their fees are sufficient to cover the cost of servicing those accounts. Depending upon the firm, that minimum might be set at \$250,000, \$500,000 or even \$1 million or more. But many RIAs will make exceptions from time to time: for the children of clients, for example, or where there is a reasonable expectation that the client's account is likely to grow. "Most firms will take on people if they have the potential to add money to their portfolios over time — if, in other words, they are true wealth accumulators," says Elaine Bedel, president of Bedel Financial Consulting Inc., a fee-only registered investment advisor in Indianapolis, Ind. "A young doctor just starting out in his or her career would be a perfect example."

## **9. You have multiple options for assessing an RIA's performance.**

One of the best ways to assess the overall level of service provided by an investment advisor is to get references from their other existing clients. Assessing investment performance can be trickier, since the portfolios an advisor builds will vary from client to client based on each one's unique investment goals and circumstances. While RIAs can show you how some of their select actual client portfolios have performed, Hart notes that the SEC prefers two alternative methods. One is to show composite results of bundled client accounts that meet certain common characteristics, such as type of client, asset allocation or risk profile. The second is to show results for model portfolios the firm has designed for different types of hypothetical investors. As the firm makes recommendations to its actual clients over the course of time, it implements similar recommendations in its model portfolios.

## **10. You can continue to work with other investment advisors while working with an RIA.**

Most RIAs are happy to work in tandem with your existing advisors, including your accountants, lawyers and bankers, to make sure that your financial goals are being addressed in a holistic manner.

*Randy Myers is a freelance writer whose work has appeared in Barron's, CFO, Corporate Board Member and other prominent business publications.*



**Discover the difference with a  
Registered Investment Advisor.**

[riastandsforyou.com](http://riastandsforyou.com)

Reprinted with permission.

The views in this article are those of the author and are provided for educational purposes.

(1011-7086) ATL64797