

Countdown to Independence

Building your RIA office

By Linda Shirkey

You've made the decision to become an independent registered investment advisor. Congratulations! You may be feeling a mix of emotions right now – excitement and maybe a bit of fear. That's normal for any start-up venture.

Remember: Building a firm is much like building your own house. Sound project management is key. There are lots of tasks and decisions, both large and small. I'm going to give you a timeline to show you step by step how make the transition to your independent RIA office. To make things even simpler, I've divided the timeline into how, who, what, when and where.

1. How

The first step in building your RIA office is writing a business plan, which is similar to the blueprint for designing a house, and, like a blueprint, is often “tweaked” during the actual construction phase.

The key elements of your business plan include

1. Determining your target market
2. Defining your service
3. Developing a marketing plan
4. Making staff projections
5. Analyzing the competition
6. Creating a start-up budget
7. Developing revenue and expense projections.
8. Conducting a break-even analysis

A key element of your business plan is determining your pricing structure. Pricing for your services will drive your revenue and expense projections. Think about how the business plan feeds into your SEC registration and your policies and procedures.

2. Who

Who is your new firm, who are your clients going to be and who is the staff? Who will move with you from your current office? When you think about your clients, it's easy to focus on just on the book of business that you expect will move with you. Everybody likes to think that all of their clients will move, and that they're going to move immediately.

But how do you know who will actually move with you? Ask yourself who the client identifies with. Does the client see him or herself as your client or as a client of your firm? Those who see themselves as your clients will move. Those who see themselves clients of the firm are less likely to follow you. Also keep in mind that clients usually take longer to move than you think.

You also need to look beyond your initial client group. Who are you targeting and how are you going to market your services? While it's easy to focus on the book of business that's coming with you, over the longer term, you'll need to feed the business with new clients.

Next, consider your resources. Select the custodian and other industry experts to help you through the transition. Consider outsourcing functions that are not your core competencies. Other people can help you – your legal counsel and consultancies like mine. You can learn from others' successes and mistakes.

One more thing: Ask yourself who you can trust. Don't tell people in your current firm that you're leaving until the moment you resign. Having your firm find out you're leaving before you're ready to go could throw a wrench into your plans. I'll discuss this more in the "When" section.

3. What

Next define your services: What exactly are you providing? How are you going to package your services? Do you see yourself as a wealth manager? Are you going to do financial planning? Are you going to be a family office? The way you package your services will determine how much service will be needed, which will drive your staffing needs.

What do you need for your office? A mistake I see all too often is new firms buying fancy, expensive new furniture. Coming from Houston, home of Enron, I know there's a lot of great used office furniture out there. Closed banks are a good source of used furniture. In fact, I have a client who completely furnished his office from the warehouse of a recently closed bank.

As for software, think of the kinds of programs in your office today that are not going to be provided to you by your mother broker-dealer. Your client relationship management system is a prime example. Consider if you'll need portfolio management software. Telecommunication – a given where you are now -- is another area that can be a surprise. Equipment can be expensive and needs to be thought through.

4. Where

Real estate is an important issue in determining your brand. Do you want to work from home on a short term basis until you know how many clients are coming? I have some clients who began in an executive office suite until they knew how big their business was going to be. Another client discovered he had a three month build-out period before he could move into his newly leased office. He went to an executive office in the same building, retained the same basic office address, and moved into the finished space within three months. Consider how long it's going to take to find a space, the build out time and any special needs within the space, such as cable or t-lines.

5. When

Now for the most critical question: when. Timing is everything. You can't officially open your new office until after you've resigned from your old firm and after you're registered with the SEC.

So first, set your target registration date. You don't have complete control over this. Your registration could take up to 45 days. Ideally, you want to have everything set up before your registration occurs. Under the best of circumstances, you'd receive your registration so that you can resign on Friday, spend the weekend completing client applications and paperwork, then start seeing clients on Monday.

What you don't want is the dreaded temporary restraining order. Your broker-dealer can ask a judge to issue a TRO that bars you from contacting any of their clients for 90 days. Try to avoid this by keeping your plans secret from everyone in the office, thoroughly reviewing your employment contract and consulting your legal counsel ahead of time. One more thing: On the day you resign, walk out with your hands empty. Don't take anything that belongs to the broker-dealer. Not one scrap of paper. No numbers in your cell phone. No addresses in your Blackberry.

Building the timeline

So let's build the timeline:

	Registration/Resignation date					
	7 to 8 weeks	5 to 6 weeks	3 to 4 weeks	1 to 2 weeks	Month 1	Month 2
 WHO	<ul style="list-style-type: none"> Legal entity Staff needs Who will move? Support: Legal, compliance accounting 	<ul style="list-style-type: none"> Corp ID Logo Start website Marketing materials 	<ul style="list-style-type: none"> Order cards, stationery Interview prospective staff Produce materials 	<ul style="list-style-type: none"> Hire staff Cards delivered Website done Train staff 	<ul style="list-style-type: none"> Open website Talk to clients Get documents signed and into custodian 	<ul style="list-style-type: none"> Track incoming assets, continue getting documents
 WHAT	<ul style="list-style-type: none"> Service definition Fee structure (pricing) 	<ul style="list-style-type: none"> Client Agreement Furniture needs Equip, software hardware needs 	<ul style="list-style-type: none"> Buy furniture Buy equip, hardware, software 	<ul style="list-style-type: none"> Furniture delivered Install hardware, software, telecom Test all systems 		<ul style="list-style-type: none"> Review pricing Need to change?
 WHERE	<ul style="list-style-type: none"> Determine space needs Select space 	<ul style="list-style-type: none"> Secure space Design Office Electrical needs Special wiring Set move date 	<ul style="list-style-type: none"> Build out space Get phone #s 	<ul style="list-style-type: none"> Move 		
 HOW	<ul style="list-style-type: none"> Business plan 	<ul style="list-style-type: none"> Start registration 	<ul style="list-style-type: none"> Submit registration Review biz plan 	<ul style="list-style-type: none"> Compliance procedures Code of Ethics 	<ul style="list-style-type: none"> Registered 	<ul style="list-style-type: none"> Review plan
		(\$\$)	(\$\$\$\$)	(\$\$\$\$\$)	(\$\$\$\$)	\$\$

Look at the bottom row of this table. That's the money flow. It starts out as negative in parenthesis and then, hopefully, turns positive in Month 2 of the operation of your new company.

The red triangle at the top is your target registration/resignation date. That's the date we're going to work from. For our purposes, we're going to work backwards in intervals of about two weeks. But it doesn't have to be two weeks; it can be one week, it can be a month. Everything depends on how quickly you want to proceed and how much energy you put into planning the details.

Seven to eight weeks out: Ask the "who" questions: look at your staff needs, determine your outside resources. Look at your own skills and your own interests carefully. Honestly determine your areas of weakness, because you want to start building a team to strengthen the areas where you are weak. Think of your RIA business in terms of the three Ms: marketing, the market (that's the "economic or stock market") and managing the business itself. You can bring people in to help you in any of those areas.

You'll also need to define your services and determine your pricing. This will help you build your business plan.

Five to six weeks out: Start building your corporate identity. Here you'll start paying out money because you'll probably hire a marketing firm. You can spend as much money as you have on marketing. While marketing is really important, you don't have to spend a lot to be effective. The really important place not to scrimp is on the Information Technology side.

You need to be securing your office space and beginning the registration process.

Three to four weeks out: Get your phone numbers at this time, because getting phone numbers, email address and your final address will determine when you can order your marketing materials.

More and more money is going out because at this point you are buying furniture (we hope it's used furniture), equipment and software.

One to two weeks out: You may want to hire your staff before you actually resign. Or you may choose to hire staff after you've actually resigned and money starts to come in. If you don't have staff, you'll be the one filling out all the applications, so think in terms of who has time to complete all of these tasks.

At this point, let's assume everything has worked magically. The office is open, it's beautiful, the hardware has been delivered and installed, the software has been tested. Again you're spending more and more money because you're paying your staff salaries.

Magic day arrives: You receive your registration and you resign. It takes anywhere from four to 45 days for the SEC to grant your registration once it's been submitted. We really recommend that you wait to resign until after you receive your registration, because you don't want to be hanging out there for an extra 30 days with no income while you wait for the SEC to approve your registration application.

Once you receive the awaited registration, you'll move into your new office with all of your brand new equipment, you'll talk to your clients and get them to sign their paperwork, and you'll send the paperwork to your custodian (whom you've chosen earlier in the process).

You should realize that it can take 30 days from the day the client actually signs the client agreement until assets start hitting the account. That's why on my timeline, I show money coming into your business in Month 2. So as you plan your budget, look not only at what existing clients might move with you, but also consider the fact that it can take three to six months before all of their assets move, and there may be additional assets and/or clients trickling in after that initial period.

Outsourcing:

There are two important resources you're not going to have when you leave your broker dealer and become an independent investment advisor:

1. The Information Technology department you can call anytime and say "Help! It doesn't work! I can't do it!" You'll need to find a very good IT firm.
2. A compliance department who reminds you, "You can't do this; you can do that." You are going to be responsible for your own compliance. There are good compliance consulting firms out there to help you, but it's important to have that relationship in place when you start your firm, so you start out with a program in place.

Start-up Expenses

Generally, startup costs (including setting up the new entity, registration, initial purchases, etc.) tend to be 7% to 15% of the first year's revenue. Think in terms of \$30,000 to \$100,000 depending on the size and sophistication of your firm.

Surprises for New Independents

Advisors encounter a number of surprises when they make the transition to independence from their broker/dealer. First is the timing of the revenue. People are surprised it may take 30 days or more after a client executes an agreement before they see any money.

Second, many new investment advisors underestimate the time and energy it takes to run a business. In a survey by Investment Advisor Magazine, people running investment advisory firms estimated that they spent 30% to 50% of their time managing the business. Not making investment decisions, not talking to clients, but managing staff, reviewing or doing the firm's books, solving IT problems, backing up data, creating reports.... Remember the three Ms: marketing, the market and managing the company: hire for or outsource the areas where you are weak, as you will not enjoy this piece of the business, will put it off, and will not do it effectively.

Finally, time is really your most limited resource, not money. You want use your time where you are the strongest. Bring in a team of people to help you in the areas where you're not as strong.

Rewards of Independence

When you're independent, you get to be King. And as Mel Brooks said, "It's good to be the king." You get to keep the whole pie. You decide how the pie is going to be split up. There's a much greater potential for satisfaction not just for you, but also for your clients. You know what your clients need and you can provide it.

So who succeeds in this business? People who have the entrepreneurial spirit and want to do it on their own. All of our clients who put the time and thought into their transition are so much happier because they get to run their own show. Being king, or queen, is kind of addictive.

In summary, what are the keys to a successful transition? First, remember you can do this. Break things into simple tasks and accomplish them one step at a time. Take the time to think it through and keep focused on the rewards. Remember, being king is great, you get the whole pie, and in the end, your clients will be happier as well.

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