

# **DETERMINING THE BUSINESS MODEL THAT'S RIGHT FOR YOU**

Comparing the four major models // Evaluating the economics of affiliation // Making your choice

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## YOUR BUSINESS MODEL OPTIONS: DETERMINING THE PRACTICE THAT'S RIGHT FOR YOU

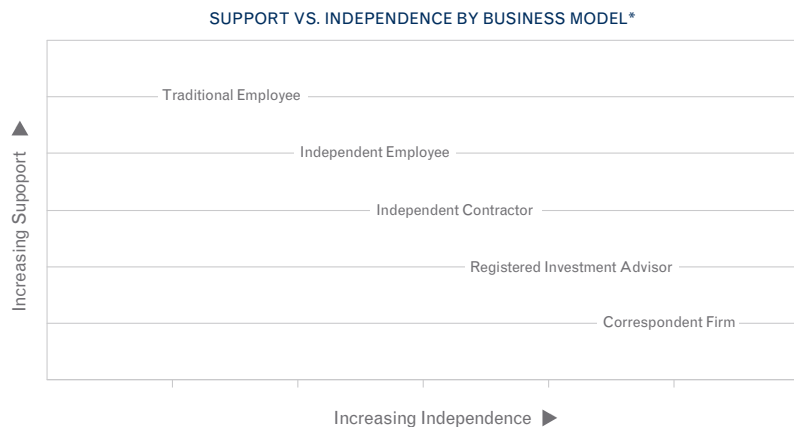
As the financial services industry has evolved over the years, the business models available to financial advisors have changed and expanded.

In the past, advisors could elect to work for an existing firm or to establish themselves as independents. Today, you have more flexibility to select the type of practices that best suits your abilities, goals and personal style. In fact, you may not even have to change firms to have the ability to change models.

However, understanding the broad array of opportunities now available presents challenges for you and your clients as you all struggle to determine which option best suits their needs and your own.

Conducting extensive research of all the available options is vital. You'll need to carefully weigh the benefits each business model presents against any potential limitations or additional responsibilities. And, of course, you'll want to look at what the options could mean for you professionally and personally, but you'll also want to imagine how your clients will see them. Which model is best for them? Which do you prefer? Are they the same?

Once you've taken the time to examine the available business models from every angle, you'll be confident in making the choice that's right for your clients, for your practice and for you.



\*Conditions at banks/credit unions vary widely, and so are not included.

## GETTING TO KNOW YOUR OPTIONS

Generally, industry business models can be characterized six ways.

- Financial Institutions (Banks/ Credit Unions)
- Traditional Employee
- Independent Employee/Quasi-Independent
- Independent Contractor/ Affiliated Franchises
- Independent RIA
- Correspondent (may be RIA or broker/dealer)

### BOTH ENDS OF THE SPECTRUM

Bank/credit union advisors are typically:

- Employees of a community bank or credit union that is, in turn, affiliated with a larger broker/dealer providing clearing and custodial services
- Employees located in one of the bank branches of a large bank holding company

In both of these settings, the institution typically generates business leads and provides access to its resources.

This business model tends to offer the greatest level of support, coupled with the least autonomy.

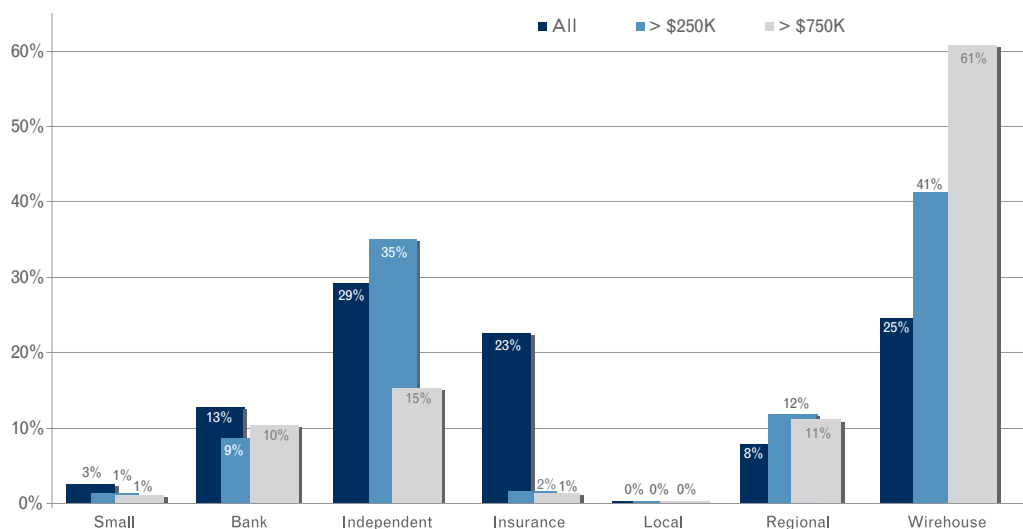
At the other end of the spectrum are correspondents, who:

- Are completely independent and must identify and employ their own FINRA-regulated broker/dealer firms
- Pay existing clearing firms as needed for clearing, custodial services and other services, often on an “as-needed” basis
- Are responsible for every aspect of their business operations, whether they are RIAs or registered representatives

### DOWN THE MIDDLE

Because banks and credit unions often have different requirements than other financial institutions, they are not included here. In addition, because building an independent firm from scratch – that is, as a correspondent, without an existing affiliation with a broker/dealer or parent RIA – is the most time-intensive, expensive and risky, option it is outside the scope of this document.

PERCENTAGE OF ADVISORS BY PROVIDER



Source: Recruiting Trends Survey, Discovery Database, April 2009

Thus, we focus here on the remaining four models: traditional employee representative in a company-owned branch office, independent employee, independent contractor and independent RIA. In the latter two models, the advisor is affiliated with a broker/dealer, but still pays his or her own expenses.

At some firms, the lines between traditional employee-representatives and the other models may not be clearly drawn – employee-reps may have more autonomy than the standard, while independents may get more support from their affiliated broker/dealers than they had anticipated.

### Broker/Dealer oversight

Broker/dealers are responsible for advisors with fee-based practices. FINRA requires all representatives who wish to engage in any outside business activities to provide prompt written notice to their member firms. FINRA-member firms are required to approve any securities transactions in which their representatives participate, report such transactions on their books and records, and supervise the transactions and activity as though the transactions or activity were effected directly through the member. Raymond James policy requires all representatives to obtain prior written approval before engaging in any independent RIA activity.

SPECTRUM OF AFFILIATION

TYPE	BROKER/DEALER	BUSINESS MODELS					
		Bank or Credit Union Advisor	Traditional Employee	Independent Employee/ Quasi-Independent	Independent Contractor/ Affiliated Franchise	Independent RIA	Correspondent
Wirehouse	Merrill Lynch		X				X
	Morgan Stanley Smith Barney		X				
	UBS		X				
	Wells Fargo	X	X	X	X		X
Super Regional/ Regional	Edward Jones		X				
	Raymond James Financial	X	X	X	X	X	X
Independent	Ameriprise Financial		X	X	X		
	Commonwealth Financial Network				X		
	LPL Financial				X	X	X
Discount	The Charles Schwab Corp.		X		X	X	
	Fidelity Brokerage		X		X	X	X
	TD Ameritrade		X			X	X

*Not only is the financial advising industry expanding to offer advisors more choices and flexibility in how to run a practice, but individual broker/dealers are adding new affiliation options for advisors, offering varying levels of support and independence. This chart shows the variety of affiliation options offered by each firm. The six options under Business Models are the general options offered, platforms varying slightly from firm to firm.*

For example, broker/dealers may allow independent RIAs with whom they affiliate to charge fees for financial plans, but not allow them to charge asset manager fees. Or, they may allow them to solicit fees to refer clients to third-party managers on their approved lists, but not to use other managers or to manage the portfolios themselves.

However, broker/dealers themselves may be RIAs. That typically means that the firm would treat an advisor as a registered representative when the advisor sells securities for commissions, and as an RIA when the advisor provides fee-based planning services.

### **Practice Makes Perfect**

Choosing the type of practice best suited to your strengths, expertise and interests is essential to your success. In making that selection, you'll need to

determine the appropriate balance between the level of support you require and the degree of independence you want. The chart on the next page offers an overview of the flexibility you might expect from selected firms.

For example, you may need to consider trade-offs between resources – such as clearing and custodial services, research, technology and administrative support – and the level of autonomy you have in running your practice. However, don't assume that, as a branch employee, you'll get all the support you need but none of the independence you want – or that, at the other end of the spectrum, you'll have autonomy from the firm with which you affiliate, but little else.

## COMPARING THE FOUR MAJOR MODELS

Different firms offer different options – and various levels of support and independence for those options – making it essential for you to conduct your own rigorous due diligence. In addition, regardless of the option you ultimately select, you should carefully assess the initial costs of moving and starting operations in your new capacity. Similarly, explore any recurring costs you may need to absorb or additional outlays you may need to make after you are up and running.

In addition, the economies of scale that a broker/dealer can secure mean that it may be able to offer administrative support as well as benefits – including health coverage – less expensively and more efficiently than you could on your own should you choose an independent model.

### OVERVIEW OF FOUR MAJOR MODELS

	TRADITIONAL EMPLOYEE	INDEPENDENT EMPLOYEE	INDEPENDENT CONTRACTOR	INDEPENDENT RIA
<b>Payout</b>	Payout varies, but generally less than other models; typically offset by greater level of support	Payout varies by firm, typically somewhat higher than employee-representative model but lower than independent advisor	Typically highest level	Typically highest level
<b>Autonomy</b>	Advisor is a traditional employee within an office environment	Ability to run own business, select location and assume responsibility for profit and loss	Complete independence	Complete independence
<b>Support</b>	Highest level of support	Varies by firm	Varies greatly from firm to firm	Varies greatly from firm to firm
<b>Location</b>	Varies	Varies, may have ability to choose	Ability to choose	Ability to choose
<b>Best Choice for</b>	Those who enjoy the opportunities of support available within an office setting and/or want to focus on their clients and leave management and administration to others	Those who wish to balance autonomy with greater level of home office support	Those who want to manage their own businesses	Those who want to manage their own businesses
<b>Practice Expenses</b>	Firm pays for bulk of expenses	Firm pays for some expenses, varies by firm	Typically advisor's responsibility	Advisor's responsibility
<b>Benefits</b>	Provided by firm	Varies by firm	Advisor's responsibility	Advisor's responsibility
<b>Book</b>	Depending on firm, may belong to advisor or to employer	Depending on firm, may belong to advisor or to employer	Belongs to advisor	Belongs to advisor
<b>Licensing Requirements</b>	Series 7 and Series 63 or 66	Minimum Series 7 and Series 63	Minimum Series 7 and Series 63	Minimum Series 65

**TRADITIONAL EMPLOYEE**

This model reflects the way advisors have historically affiliated with broker/dealers or wirehouses. As a W2 employee working in a traditional branch setting, the financial advisor typically receives high levels of support, benefits and resources – without the administrative responsibilities that independents assume. The tradeoff generally is a lower gross payout than other business models, since the broker/dealer retains a portion of the advisor's fees and commissions to cover many, though not all, of the advisor's costs of doing business. A traditional employee works in a branch with support staff, all under the supervision of a branch manager.

**INDEPENDENT EMPLOYEE/  
QUASI-INDEPENDENT**

This business model combines some features of traditional employee status with a level of autonomy similar to that of independent contractors. (See "Independent Contractor/Affiliated Franchise.") This model allows more independence with regard to decisions on office location, staffing and managing day-to-day operations, but still draws on the firm's administrative support services such as human resources, compliance, payroll and technology. Compensation is based on the net profitability of your office and gross payout is higher than at traditional full-service firms.

**INDEPENDENT CONTRACTOR/  
AFFILIATED FRANCHISE**

Independent contractors generally receive higher payouts than do financial advisors in employee business models. At the same time, however, they have direct control over all resources, operations and costs associated with running their businesses, such as office leasing, equipment and staffing. For access to the many resources and products available to traditional employees, independent advisors typically affiliate with a broker/dealer and pay for needed services on an à la carte basis.

**INDEPENDENT REGISTERED  
INVESTMENT ADVISOR (RIA)**

RIAs are typically most suited to money managers, financial planners and investment management consultants wishing to operate in a fee-only environment. RIAs may use discount brokers or full-service broker/dealers for clearing services as well as other resources. Although the support and resources available may vary greatly from firm to firm, the independent RIA is responsible for day-to-day operations such as dealing with administrative tasks, developing marketing materials and ensuring adherence to compliance.

## A CLOSER LOOK

Here are some basic issues to consider when determining whether the company and the business model you are considering joining are right for you. Most apply whether you are a commission-based broker/planner or a fee-based wealth manager. For additional information, see the Raymond James white paper, "Evaluating Your Options," available at [RAYMONDJAMES.COM/ADVISORCHOICE/WHITE\\_PAPERS.ASP](http://RAYMONDJAMES.COM/ADVISORCHOICE/WHITE_PAPERS.ASP).

### CORPORATE CULTURE AND PRACTICES

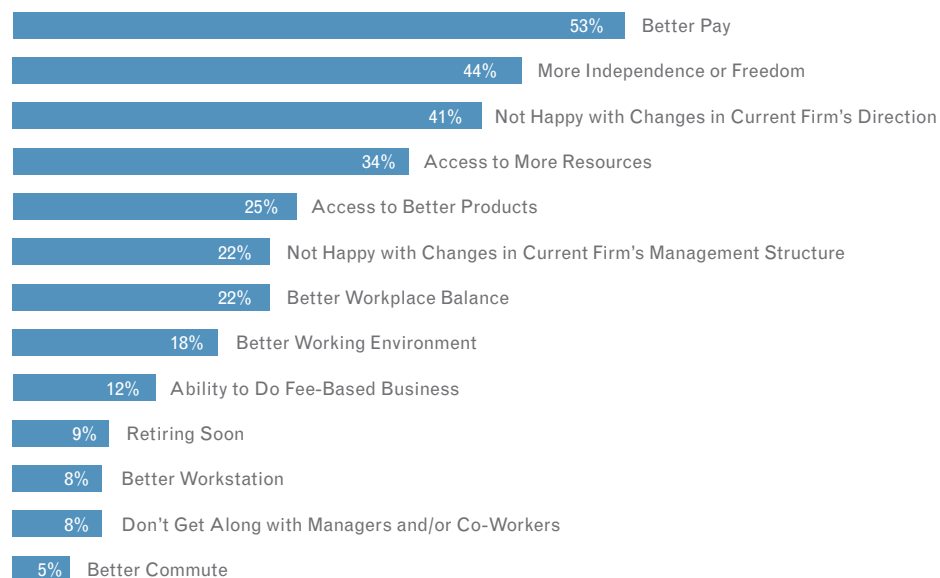
For most advisors, a key concern is the home office's accessibility and responsiveness. That includes not only comprehensive back-office support and a fully skilled, responsive trading desk, but marketing services, client communications and help with transitioning.

On a related note, make certain that the first is the right choice from your clients' perspectives. Look for an "open architecture" that is more than just rhetoric. For example, explore whether the firm puts pressure on advisors to sell proprietary products or will send your smaller accounts to call centers.

Similarly, check fees that might affect your clients or – on the other side of the coin – for products and services that most other firms don't offer. You should also explore the protection it offers to your clients. Some of the areas you may want to explore include the firm's commitment to securing the best execution for trades, the presence of both SIPC and excess SIPC coverage, the use of a strong custodian to safeguard client assets, and thorough documentation of its due diligence

## A DELICATE BALANCE

### WHY BROKERS SAY THEY WOULD CONSIDER CHANGING FIRMS\*



Source: National Financial Broker and Advisor Sentiment Index

\*Study conducted by In4mation Insights for Fidelity Investments, based on online interviews conducted between August 31 and October 9, 2007, with brokers and RIAs.



process and policy on full disclosure and prospective conflicts of interest.

You might want to visit the home office to speak with employees there, get a feel for their attitudes toward those “in the field” and generally confirm that the corporate vision is consistent with your own. One or more home office visits should also give you a good feel as to whether the firm and the model you are considering will enable you to maintain an appropriate balance between the personal and professional aspects of your life.

### **Consider the mix**

As you research the array of options available to you, explore whether the firm you select and the model you choose produce the environment you seek. Consider, too, the extent to which a prospective firm will allow – and encourage you – to build your own brand. At the same time, you may also want to determine whether the company you're considering has a brand that it actively develops and markets, and upon which you can build.

Keep in mind that many firms view your book as their clients. Some firms will give you the flexibility and support to market, grow your business as you like and own your own book. Others will require you to adhere to a preset pattern. On a related note, you may want to explore the extent to which a broker/dealer will enable you to play a strategic role in shaping the firm and your own practice.

### **Transition services**

Once you've established a “short list” of firms you're considering and decide how you want to manage your practice, you'll want to make sure your final choice not only has a dedicated, experienced staff available to help you make the transition to your new firm, but is well-positioned to provide appropriate training in a convenient, timely manner.

### **Marketing support**

Determine the level of marketing support you want – and whether both the model and the firm you're considering can provide what you will need. Those needs may range from assistance with marketing materials, presentations and seminars to help with developing a completely new brand if you're marketing your practice for the first time.

### **Finding the right niche**

Several studies indicate that compensation, while a clear incentive for making a switch, is far from the only reason advisors give for contemplating a change. For example, a substantial number of advisors – both registered representatives and registered investment advisor representatives – are seeking greater independence and/or are unhappy with the direction that management is taking. According to the National Financial Broker and Advisor Sentiment Index<sup>SM</sup>, in both 2007 and 2008, nine percent of advisors said they were “likely” to switch firms, up from five percent in 2006.

The top three reasons for brokers who were considering a change in 2008 were: “better pay,” “more independence or freedom,” and “better career opportunity.” In 2007, the third most important reason for seeking a change was unhappiness with the firm's direction.

Some advisors prefer to be independent – and thrive on the higher compensation, increased overhead and greater administrative responsibilities this model entails. For others, the higher level of support and resources that accompany an employee-based model more than offsets the likely lower payout. If the choice is not so clear-cut for you, you will want to carefully consider the full range of options, and determine where on the spectrum you'll feel most at home.

## THE ECONOMICS OF AFFILIATION

Regardless of the business model you're considering, understanding all the costs involved in affiliating with a firm you're considering is well worth the time and effort. Be ready to ask well-informed, detailed questions when discussing the payout you can expect, as well as any costs you may incur.

As discussed earlier, payout, support and total compensation differ from firm to firm and business model to business model.

For example, wirehouses typically offer lower payouts than do smaller firms. The reverse is true when it comes to upfront transition packages: smaller broker/dealers usually cannot compete in terms of cash. Instead, they may offer accelerated payouts and some type of equity component.

In determining the firms and models that are best suited to their interests and aspirations, advisors should understand the costs associated with each option. Just as important, advisors should determine both the firm and business model that most closely mesh with their personal entrepreneurial interests, professional ambitions and personal production.

To recruit and reward top advisors, some companies may go beyond their published payout grids and award bonuses to their highest producers. For instance, independent advisors who affiliate with Raymond James can potentially earn 100 percent payout after bonuses.

If you're considering going independent, you may want to consider the costs – in terms of both time and effort – you may incur. Will you want to take on administrative responsibilities yourself – such as managing the lease on office space, facilities maintenance, filing quarterly

taxes, accounting, payroll, hiring branch associates, and recruiting advisors and trainees – or delegate them to one or more employees? Many larger independents also have relationships with firms, often through professional employer organizations (PEOs), that provide administrative, payroll and other services on a contract basis that may reduce your burden/time commitment.

Just as payouts differ from firm to firm and model to model, so do the resources that broker/dealers offer. Thus, while your payout may be lower if you choose the employee model, your firm typically will absorb the costs you need to get started. RIAs and independent contractors typically pay for the resources they need directly.

### TRANSITION PACKAGES

The payout schedule is not the only component to consider. Broker/dealers are willing to invest both creativity and cash to recruit top advisors. Advisors may be able to negotiate a combination of cash up front, stock, bonuses or even salaries to move to a new broker/dealer.

Other perks available may include “front money,” or loans for upfront expenses; assistance with finding and leasing office space; reimbursement for deferred compensation; and specialized errors-and-omissions (E&O) policies that provide professional liability coverage.

In addition to financial incentives, other benefits may include the ability to head their offices or open satellite branches, allowing greater autonomy to higher-end producers.

However, any advisor assessing a transition package should consider the tradeoffs carefully. For example, while transition packages often include loans that

are forgivable over time, other portions may be subject to repayment.

Depending on both the firm and the model you select, you might not get paid as much up front, but over time, a higher payout may mean you ultimately will make more. Conversely, some firms and some models that offer higher payouts also involve higher ticket charges. Finally, while front money may offer short-term benefits, if the firm's corporate culture does not match your personality or your practice, you may be wise to keep looking.

## **BENEFITS**

Benefits, like payouts, differ from firm to firm and depend on how an advisor chooses to affiliate. Advisors who affiliate with a firm as traditional employees will receive the full array of benefits, usually including health insurance, life insurance and retirement benefits for themselves and their staffs.

In the independent employee model, the firm normally subsidizes all or part of the health insurance costs for the advisor and support staff, with the extent of the subsidy dependent on the advisor's production level. The firm may also offer some type of retirement benefit for the advisor, such as a 401(k) match, but the advisor may have to allocate a percentage of payout to cover these benefits.

Advisors with the highest levels of independence and the highest payouts – independent advisors and registered investment advisor representatives – typically are completely self-employed and therefore responsible for providing all benefits for themselves and their staffs.

For independent advisors, using a PEO can significantly

reduce the administrative burden of health insurance, tax records, workers compensation, 401(k)s and other benefits. Although advisors must pay for these services, the costs are generally competitive because of the PEO's ability to take advantage of economies of scale.

Advisors contemplating the move to an independent business model must also consider the staffing needs of the practices they are planning to launch. Again, they may choose to use a PEO or provide benefits themselves. In either case, as independent business owners, advisors must be aware of the responsibilities involved in providing benefits.

## **WHOSE BOOK IS IT?**

When advisors are affiliated with a firm as employees, their books are normally considered the firm's property.\* Even if you stay with your current firm, but move to a more independent option, the firm may retain ownership of your book.

The equity you can gain by selling your book can be an important part of your retirement plan. And ensuring that your book is indeed yours can be a major reason to change firms and/or employment relationships.

Happily, in recent years, selling your book has become much simpler.

Not only are third-party consultants available to provide assistance, but many large independent broker/dealers provide websites where advisors can list their books or practices.

For RIAs and independent advisors who not only own their books but also own the companies they have built, the eventual payoff can be a major factor in deciding whether to change firms or business models.

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\*Raymond James & Associates is one of the few exceptions to this generalization. Even within the traditional employee business model, an advisor owns his or her book free and clear, subject to certain criteria.

## THE INTANGIBLES

### Workplace environment

Another question when considering a move is: What type of workplace environment will best serve me and my practice? The typical work environment for a traditional employee of a broker/dealer is the branch office. Although branches vary in size, their structures are usually well-defined, typically including a branch manager or other supervisor who reports to home office management. Other advisors may or may not work on site.

An effective branch manager can be a great asset in making a transition smoother, and can serve as an advisor's mentor and advocate. However, some advisors prefer more autonomy in operating their businesses. Many wirehouses and regional broker/dealers have responded by offering to establish new branches for top-producing advisors who wish to affiliate as employees but desire additional autonomy without giving up access to the firm's resources.

Within the independent business models, individual advisors can structure their own office environments. Some independent advisors and RIAs choose to work completely alone, sometimes out of their homes or personal office areas on their properties. However, many firms no longer permit independent advisors to work at home due to stringent compliance restrictions. These advisors have the option to choose a location convenient to their homes, often reducing their daily commutes, or choosing an office location that is most convenient for their clients.

A totally solitary atmosphere may be a jolt for advisors accustomed to working with other professionals throughout the day. As a compromise, some advisors choose to partner with other independent advisors in one of two primary ways.

In the first, two or more advisors can formally join forces, adding more total assets under management and forming a team that shares not only office space and costs but also business interests. Establishing a formal partnership requires advisors to thoroughly examine their personal and business objectives to make sure they are compatible with those of the advisor(s) they plan to join.

And in the second, a group of advisors may also choose to work in the same space simply to share rent, utility costs, miscellaneous expenses and possibly office staff.

Both choices have advantages and disadvantages. In the first scenario, the combined skills and expertise of the team can increase the value the advisors provide their clients while enhancing their own success.

The latter option, the shared-space-only model, allows advisors to reduce overhead costs while maintaining their autonomy. While some decisions do have to be made jointly, those decisions are purely administrative in nature, not related to business strategy, practice styles and other issues that might arise in more formal partnerships.

**Office management structure**

The business model you choose will also determine how your office is managed. For traditional firm employees, the branch and/or operations manager oversees daily activity and handles day-to-day administration. Being free of these responsibilities and their associated costs allows advisors to focus fully on production. In these settings, having a positive relationship with your branch manager can be critical to productivity and job satisfaction.

When examining the office management requirements associated with various business models, evaluate whether you are truly prepared to assume all management functions for an office and support staff. Also consider how the time spent doing so will affect your production – and whether your cash reserves are sufficient to carry you over comfortably. If you prefer not to run your own office or hire a staff to run it, the tradeoff of a lower payout in a less independent setting may be the best choice for you.

**How marketable are you?**

While standards may vary from firm to firm – and healthy broker/dealers can now afford to be as selective as they want – advisors with the most options tend to have:

- Minimum annual productions of approximately \$500,000
- Healthy percentages of fee-based clients
- Clean compliance records

The best candidate for a particular position, however, may vary from firm to firm, and the requirements of each business model. In addition, each firm will establish individual qualifications and target advisor segments.

Now that you've had an opportunity to review the considerations set forth in this guide and have thought about what is most critical to your potential fit with any organization, it's time to begin your research in earnest.

## NEXT STEPS

The decision to move to a different business model or even to simply change firms is not one to be made lightly. Nor is moving a simple process. When all is said and done, the truly critical questions are, “Will this move help me achieve what I want, personally and professionally?” and “Will this enable me to better serve my clients, both now and as their needs change?”

You may want to start by visiting the websites of the firms in which you have an interest. Or, if you know the model in which you're most interested, you may want to begin by determining the firms that offer that option. Many firms have sites devoted to recruiting. Raymond James provides prospective advisors a wealth of information about available business models, services and products, as well as a variety of interactive tools and presentations, at [ADVISORCHOICE.COM](http://ADVISORCHOICE.COM).

For a confidential consultation with a Raymond James recruiting consultant, call 877-909-6444.

To compare Raymond James' business models side-by-side, visit our interactive tool at [RAYMONDJAMES.COM/ADVISORCHOICE/MATRIX](http://RAYMONDJAMES.COM/ADVISORCHOICE/MATRIX).



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