MAKING A SUCCESSFUL TRANSITION

Five common stages of transition // Exploring different affiliation options // Tools and resources
MAKING A SUCCESSFUL TRANSITION

FUNDAMENTALS OF A SUCCESSFUL TRANSITION

If you’re thinking about joining a new employer, launching your own practice as an independent contractor or establishing your own RIA, there are several important factors to consider. Starting the transition process with realistic expectations will improve your chances of success. A smooth transition requires detailed planning, a high degree of discretion and putting in extensive hours before, during and after the transition. The good news is that, while career transitions require a lot of hard work, they can also be highly rewarding – professionally, financially and personally.

Thousands of advisors make smooth and rewarding transitions to new career paths each year. The most successful employers, independent broker/dealers and RIA custodians have experienced transition teams and well-defined processes for helping advisors make career transitions. However, not all transition teams and support services are created equal. It’s important to know what to expect from a prospective employer, broker/dealer or RIA custodian before making any major career or business decisions. Talking one-on-one with the actual people who will help you make the transition is an essential part of the discovery process.

By talking with your prospective transition team in advance, you’ll have a better understanding of what to expect and what your clients are likely to experience. We believe a successful transition requires a structured approach with virtually nothing left to chance. The tools contained in this white paper are designed to make the transition process more defined and less uncertain. Do as much research and eliminate as many variables as possible in advance. That way, you’ll be in a much better position to make more informed career choices. When you closely examine each of the factors contributing to a successful transition, you should feel more confident about your career options and more in control of your personal career path.
GETTING STARTED
In the following pages, you’ll find conversation starters you can use when conducting your due diligence with potential new employers, broker/dealers or RIA custodians. You’ll also find a discussion of the financial considerations that different career choices may present. In addition, we’ll discuss “the Protocol” for making job changes, which frequently impacts wirehouse advisors who may be looking to join a new firm, become independent contractors or start their own RIAs. We hope that this white paper can play a useful role in helping you make the career choice that’s the best fit for your clients and for you as you start this new chapter in your career.

Because no two advisors are alike, this white paper is designed to help address the experiences of a broad range of advisors. Whether your transition goals include keeping a similar affiliation option to the one you currently use, switching to a new business model or exploring a “hybrid” business model, you’ll find stories of advisors who have traveled each path. You can easily read the information contained in this white paper in the sequence presented in the table of contents, or jump ahead to the sections or modules that you find most interesting and catch up with other sections at a later time. We invite you to make this white paper your own and read topics in the order that is most useful to you.

FIVE COMMON STAGES OF TRANSITION
If you’re ready to make a career change, chances are good that there may have been some kind of catalyst that led you to consider moving forward in a new direction. The catalyst could be an event or series of events associated with an existing employer or business model that’s creating tension or dissatisfaction in your daily routine (or for your clients).

If you’re feeling dissatisfied with work or looking for a more robust platform, take the time to identify and articulate the answers to these questions:
• Why are you dissatisfied with your current situation?
• What are the top three changes you’d like to implement in your job structure to create greater job satisfaction?
• Is it possible to resolve your concerns within the context of your current employer or business model, or do you feel that you would potentially be happier somewhere else?

With a solid understanding of the catalyst behind your decision to explore a career change, you’re more likely to make a move that will generate positive results in terms of career satisfaction and finding the best way to serve your clients.

*Or, you may want a platform with more choices for your clients.
STAGE 1
PREPARE AND CONDUCT DUE DILIGENCE
Before you can make a successful transition, you'll need to conduct due diligence around your career options. If you plan to stay in the advisory profession, create a list of possible firms you might want to be associated with during the next phase of your career. Contact those potential business partners to learn more about their platforms, their compensation structures and their transition support services. In addition, it's a good idea to talk with other advisors who have made a change similar to the one you’re contemplating.

Once you have an idea of what your ideal business model might look like, try to narrow down your choices of business partners to the top two or three firms on your list. Visit those firms in person, talk with the transition teams that would be responsible for helping you make your move, and learn as much as you can about available business models and support systems at those firms.

Before you can move to the next stage of the transition process (planning), you'll need to choose a specific business model and firm to affiliate with. If you're considering a firm with multiple affiliation options, be sure you thoroughly understand your options for moving to a new business model in the future if that’s something you may be interested in.

During the due diligence phase, it’s also important to assess the strength of your client relationships in order to estimate how many clients would potentially come with you once you’ve made a transition. Important questions to ask yourself include:

- Did you find your clients or were they introduced to you by your firm?
- Where does most of the revenue in your practice come from?
- How will the set of investment products and wealth management solutions you currently use and your style of managing portfolios translate to a new firm?

Keep in mind that you cannot and should not talk about a planned transition with your clients until you’ve actually resigned from your old firm. However, it is a good idea to have a thorough understanding overall of your clients’ current levels of satisfaction and potential loyalty. It’s also a good idea to project how your revenue might look with a new employer and/or business model.

STAGE 2
ORGANIZE AND PLAN
The organization and planning stage is one of the most important components of a successful transition. Advisors who have completed recent career transitions report that it’s normal to work weekends and put in 12-hour weekdays during the last few months leading up to their resignations. At the same time, they report that the actual steps they needed to follow in the planning stage can be easily identified, explained and understood. While the firm you’re moving to may have an experienced transition team to help you through the planning process and the transition itself, the ultimate responsibility for an effective transition begins with you.

Get Advice
As a starting point, be sure you understand the legal aspects of your current contract and leaving your current
employer. If your employer is a member of the Protocol for Broker Recruiting, consider how the Protocol will impact your career change. (For more on the Protocol, see page 16.) You may need to hire outside legal counsel. The firm you’re transitioning to can help you consider what legal resources you may need to employ and how to find them.

Refine Your Client Segmentation Strategy
A transition is often an ideal time to reprioritize your client segmentation strategy. Depending on your goals, there may be some clients you want to transition with you and some you deliberately choose to leave behind. Based on your long-term view of your practice, try to trim any clients from your roster who may not be a good fit for your goals and identify the clients whom you’d most like to transition with you.

Select a Firm and Business Model
You’ll ultimately need to decide which firm to work with and which business model to employ after your transition. For a more in-depth look at the process of selecting a new firm, visit RAYMONDJAMES.COM/ADVISORCHOICE/WHITE_PAPERS.ASP to view Evaluating Your Options. Once you have identified where you’ll go and how you’ll manage your practice, you can begin the next steps in the planning process. These include creating a timeline, establishing a transition budget and assigning transition responsibilities.

Establish a Timeline
Based on conversations you have with the firm you plan to join and other advisors who have made similar transitions/decisions to the one you are considering, try to estimate the total time it will take to make a successful transition. Your transition timeline should include a target date to resign from your current firm. (You may want to consider resigning on the last business day before a holiday weekend, which potentially could provide you with an extra day to contact clients.) As part of your timeline, be sure to have a clear communication plan in place to reach out to existing clients as soon as you affiliate with your new firm – take care, however, to ensure that your communication plan complies with any contractual obligations you have to your former firm.

Create a Transition Budget
Your transition budget should take into consideration all potential income and expenses for your first year in business with a new firm. Once you’ve resigned from your old firm, keep in mind that your revenue for the first six to 12 months may be less than normal while you move client accounts to your new firm. If you’re planning to become an independent contractor or establish your own RIA, you may also want to consider short-term loans or other transition assistance to help you cover your start-up costs. Potential expenses you may need to consider include office space, equipment, technology systems, phone systems, benefit plans and salaries for personnel. In addition, be sure to plan for marketing costs, such as a new website, stationery and collateral materials. The business development team at the firm you have chosen will likely be able to provide you with a more comprehensive list of budget items to consider.

Assign Responsibilities
Just as it’s important to have clearly assigned roles and responsibilities when running your daily practice, you’ll need to have a clear idea of who is doing what during the transition. As a starting point, identify which new team members (if any) you may need to hire once you establish your new practice. However, before discussing your transition plans with any of your support staff employed by your current firm, you may want to consult with your legal advisor about your current employment contract and what restrictions (if any) may exist concerning pre-transition communications. In addition, if the firm you are joining is providing a transition team, be sure you understand the roles and responsibilities of each member of the team, and create a list of who is responsible for what actions during the transition period.
STAGE 3
ENGAGE YOUR TRANSITION TEAM
As you get closer to your target transition date, your transition team at your new firm will help ensure that you have key elements in place for creating a successful transition. Things to consider at this stage are the practical aspects of mapping accounts, transferring your securities licenses (if applicable), and learning more about the essential documents you’ll need to fill out and general processes and procedures you’ll need to follow at your new firm, including payroll, technology and compliance systems. During this phase, you’ll also want to make sure that you have everything in place to be up and running at your new firm on the first day of business, including business cards, stationery and your website.

STAGE 4
AFFILIATE WITH A NEW FIRM
Following months of planning, you’ll be ready to execute your transition by resigning from your old firm and joining or creating a new one. Following your resignation, there will be a whirlwind of activity that includes contacting your clients, moving offices and (if applicable) moving your securities licenses. You’ll also need to begin opening accounts at your new employer, independent broker/dealer or RIA for transitioning clients. If you’re becoming an independent contractor or establishing your own RIA, you may also need to set up technology systems, benefit plans for yourself and new team members, and establish new vendor relationships during this phase. The execution phase often takes up to 90 days or longer, depending on the complexity of your business model and extent of changes you’re instituting in your practice.

STAGE 5
THRIVE IN YOUR NEW PRACTICE
Once you have gotten through the initial start-up or execution phase, it’s time to enjoy the benefits of your new career path. You may need to fine-tune your operations and investment platform by assessing which solutions are working well for you and which could be improved. This is also a good time to begin networking with peers, management, centers of influence and investment specialists at your new firm – allowing you to more fully leverage the resources of any firms you may now be affiliated with. Be sure to schedule introductory calls with key players in different departments at your new firm, such as technology services, investment research and compliance. In addition, you’ll be well-positioned to attract new clients who reflect your updated client segmentation strategy. One aspect that many advisors overlook is the potential for growth once the most complex parts of the transition are over. By seeking out a business model and business partners that reflect your goals for the future, you’re more likely to turn those goals into reality.

EXPLORING DIFFERENT AFFILIATION OPTIONS
Recognizing that advisors increasingly want more choices when it comes to how to run their practices, many financial services firms are now offering advisors multiple affiliation options. At Raymond James, we offer the broadest range of affiliation options for advisors in the industry. What’s more, at Raymond James, you have the flexibility to change your business model over time, as your needs, interests and client base evolve. Across all of our affiliation options, you’ll enjoy access to world-class support and resources. In addition, we believe that – if you are in good standing and meet certain criteria – you always own your book, regardless of the affiliation model you choose. Here’s a high-level look at some of the transition issues associated with each of our primary business models for advisors.
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THE EMPLOYEE MODEL

Transitioning from a wirehouse environment to an employee relationship with another firm is typically less complex than becoming an independent contractor or establishing your own RIA. Nonetheless, your transition will still require a lot of careful planning and hard work. At Raymond James, our traditional employee model offers advisors extensive support, while still offering a high degree of freedom and flexibility to run your practice as you see fit.

COMPENSATION AND RETIREMENT PLANNING

You’ll benefit from competitive compensation, bonus opportunities, generous deferred compensation and equity participation plans, and a flexible 401(k) plan, along with a full range of insurance options. And you’ll get it all from a firm that respects your client relationships, granting you full ownership of your book of business.

TRANSITION TIMELINE

For most advisors, a typical employee transition timeline ranges from three to six months of combined due diligence and general planning before resigning from their previous firms. Your personal timeline may be longer or shorter depending on your needs and the complexity of your current practice.

• Catalyst phase: Timing varies
• Due diligence phase: 30 to 60 days
• Planning phase: 45 to 60 days
• Execution phase: 30 to 60 days pre-transition and up to about 90 days post-transition
• Thriving phase: Unlimited

REAL-LIFE TRADITIONAL EMPLOYEE TRANSITION STORY

FRED

Fred had been a financial advisor at a wirehouse for his entire 15-year career. He had developed a focused business model of working with the employees of a major company in his city. Over the years, he accumulated 200 households, $90 million in AUM and annual production of $900,000. In 2008, a confluence of factors caused Fred to reconsider his career options. On a national level, his firm was engaged in activities that caused him to question its corporate ethics. At the branch level, he felt that morale was low and leadership was lacking. All told, the only thing keeping him at his firm was inertia.

“Looking around, I never seriously considered other wirehouses, mainly because it seemed like a lateral move,” says Fred, who adds that he didn’t know how he could explain such a move to his clients. “My number-one issue was integrity, and the other national firms seemed like more of the same.” Raymond James was at the top of Fred’s list, and a due diligence visit to Raymond James’ international headquarters sealed it for him.

Fred credits the success of the move to the assistant who came over with him. At this point, Fred has no regrets, as he was able to bring approximately 85% of his desired assets with him when he moved to Raymond James. He reports that his assistant is happier now and his clients have greater peace of mind. Fred also notes that the local Raymond James office he joined has been terrific. Fred offers the following advice to advisors in similar circumstances: “Be absolutely sure that you know why you are making the move. You need to be clear in your mind about the reasons behind your decision and convey these reasons to your clients in words that ring true.”
THE FINANCIAL EQUATION
Top producers are often offered large, up-front payments to join another wirehouse. Yet those payments tend to come with major trade-offs.
• Employment contracts can last up to 10 years.
• Dissatisfactions with one wirehouse are likely to be repeated at another.
• Your new employer will likely claim to own your book of business (even though you brought over the accounts in the first place).

At Raymond James, our traditional employee business model offers superior payouts to most wirehouses and many regional firms. In addition, we offer advisors the freedom and flexibility to manage their practices as they see fit and to significantly increase their compensation potential over time.

• We are an “at will” employer, meaning that you can change employers at any time. (There are no nine-year employment contracts to navigate.)
• We believe your clients are your clients and, ultimately, your business belongs to you. As long as you remain in good standing with Raymond James during your employment with us, you can take your clients with you should you decide to change firms.
• Being associated with a firm with no conflicts of interest, a sound business model and an ethical reputation can help you attract new assets and grow your business.
• At Raymond James, our commitment to meeting the needs of advisors and their clients extends from senior management to team members who help advisors with day-to-day operations.
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REAL-LIFE INDEPENDENT EMPLOYEE TRANSITION STORY

THE FRANKLIN GROUP

After being in the business for 25 years, this six-member, high-performing team knew it was time for a change. With $800 million in AUM and $3.4 million in revenues, they were doing well. However, the team was becoming increasingly concerned with the conflicts between the culture of their wirehouse employer and their own standards and values. Also, they found the leadership on the local level to be lacking the principles that the team espoused. Looking around at the landscape, the team narrowed their search to Charles Schwab and Raymond James. After seriously considering forming an RIA using Schwab’s custodial services, the team chose the Raymond James independent employee platform, which offered them the ability to manage their practice according to their vision and values, keep more of what they earned, and still enjoy the support of a larger organization.

“Managing more than 2,200 accounts for 350 client households, we had to engage in considerable planning prior to ensure a successful transition,” says Mark, the team’s senior partner. “We ultimately spent about five months planning for the move.” This was longer than expected, but some of the delay was related to finding a suitable new office location for the team. The move went smoothly but still involved some challenges. Optimally, the team would have preferred spending more face-time with their clients during the transition process. Mark offers the following advice for advisors making a transition: “Be sure that you’re absolutely clear on what the roles and responsibilities are for everyone on your advisory team, as well as your transition team, if the firm you’re moving to is providing you with support.”

Two years after transitioning, 80% of the team’s assets had moved over to Raymond James. The team took advantage of the transition as a time to significantly alter their service structure toward a fiduciary, discretionary model. Moreover, the team’s move looks remarkably prescient, given that they made their break one month prior to the negative financial news that began bubbling to the surface in 2007. Today, the team loves owning their own business, and its members are happy to walk through their door every day. Looking ahead, the team has their sights set on the $1 billion AUM mark, a goal that seems imminently achievable given what they have created and set in motion.

THE INDEPENDENT EMPLOYEE OPTION

The independent employee model lies somewhere between the traditional employee and independent contractor models, offering advisors a high degree of support with the potential for higher payouts than our traditional employee model.

COMPENSATION AND RETIREMENT PLANNING

You’ll enjoy a competitive compensation package, as well as the opportunity to take more control of your business. As an independent employee, you’ll find the economics attractive and won’t incur any ticket charges. You also have the ability to participate in our corporate 401(k) and other benefits plans.

TRANSITION TIMELINE

For most independent employee advisors, a typical transition timeline ranges from three to six months of combined due diligence and general planning before resigning from their previous firms. Your personal timeline may be longer or shorter depending on your needs and the complexity of your current practice.

- Catalyst phase: Timing varies
- Due diligence phase: 30 to 60 days
- Planning phase: 45 to 60 days
- Execution phase: 30 to 60 days pre-transition and up to about 90 days up post-transition
- Thriving phase: Unlimited

THE FINANCIAL EQUATION

Structurally, the Raymond James independent employee model is a hybrid of our traditional employee business model and our independent contractor business model, aiming to offer the best of both worlds. You get the support of a larger organization, while gaining more control over your business expenses and compensation.
GOING INDEPENDENT

Our independent contractor model is designed to allow advisors to take total control of their businesses while enjoying the support and resources of a full-service firm. In addition to complete professional freedom, independent contractors can select from a wide range of administrative and benefits services.

COMPENSATION AND RETIREMENT PLANNING

Payouts range from 80% to 100% and vary depending on your mix of business and production level. You have the ability to establish and fund a SEP IRA or individual 401(k). Raymond James also offers the Advisor Advantage Program, a professional Roth savings plan, as well as our Wealth Accumulation Program and Honors Program, an innovative bonus system. In addition, you have the ability to sell your book of business to another advisor upon retirement, creating transferrable value in your practice.

TRANSITION TIMELINE

For most independent contractors, a typical transition timeline ranges from six to nine months of combined due diligence and general planning before resigning from their previous firms. Your personal timeline may be longer or shorter depending on your needs and the complexity of your current practice.

- Catalyst phase: Timing varies
- Due diligence phase: 30 to 60 days
- Planning phase: 45 to 60 days
- Execution phase: 30 to 60 days pre-transition and up to about 90 days post-transition
- Thriving phase: Unlimited

REAL-LIFE INDEPENDENT CONTRACTOR TRANSITION STORY

JANE AND HER TEAM

Jane was a producing branch manager for a major wirehouse, where she managed a team of advisors while also overseeing $100 million in assets for her own clients. She was concerned about the financial health of her firm’s parent organization and what she describes as a “lack of moral compass” within the corporate culture. What’s more, the firm was continuing to lay off staff members, making it harder to service many long-term clients.

The team, which consisted of four advisors and three support staff, considered a number of employers and business models, including LPL Financial, Charles Schwab, Fidelity, Commonwealth and Raymond James. “As we got more information, Raymond James stood out as a clear leader,” says Jane. “We were attracted to the ethical background and history of the firm and liked the fact that client service was the top priority.” The team ultimately decided to join Raymond James as independent contractors.

Planning for the transition required two months of hard work. Despite an accelerated transition process, the team reports that they are very happy now working at Raymond James. “The culture here is totally unexpected after you’ve worked in a wirehouse. You genuinely become friends with the people you work with,” says Jane. “And the lack of emotional stress of working compared to a wirehouse is huge because we trust the company we’re working with.”

The team has moved to a discretionary format, which clients have embraced. “Clients don’t want to make stock-picking decisions, and they’re thrilled to delegate that responsibility to us,” says Jane. The team now hosts quarterly seminars for clients offering current market updates and meets with every client in person twice a year. “We have a lot more face time with clients than we did before because we’re not spending all of our time on the phone confirming trades,” she says. The team expected to bring more than 80% of their client assets from their former firm and ended up moving about 92%. They’ve also picked up new assets from client referrals and now manage a larger branch than the one they left. They like the flexibility of Raymond James’ independent contractor model and say they may consider establishing their own RIA over time, using Raymond James as a custodian. Jane offers the following advice to advisors who are thinking about making a career transition: “When you’re starting a new business, only take on that which you feel you can effectively handle. And do the things that you’re taking on well.”
While advisors considering independence often take a long-term view that focuses on payout issues, it may be that the most significant financial advantage of independence lies in the equity value that can be realized upon retirement. For most independent advisors, the equity value of the practice is the largest, single asset in their personal portfolios – and the gains from its sale can be taxed at the long-term capital gains rate.

FP Transitions, an independent valuation firm that helps advisors with succession and retirement planning, offers this hypothetical example. Peter, who is employed at a large wirehouse, generates $1 million a year in production and receives 40% payouts. If he accepts a $2 million bonus to join another wirehouse, that bonus will typically be spread out over a nine-year period. He’ll pay ordinary income tax rates on those payouts. Also, assume he receives an average annual income of $500,000 and that his practice grows at 5% a year. In this example, also assume that Peter’s blended tax rate (including state and federal taxes) is a not unrealistic 40% on ordinary income. Over a nine-year period, the total value of his compensation, after taxes, works out at approximately $2,900,000.

However, what if Peter decides he doesn’t want to be tied to a nine-year employment contract? He wants more freedom, flexibility and control in the way he builds and manages his practice, so he explores the independent contractor model and estimates his potential income. Assuming an average payout of 90% for producers at this level, he calculates that he’ll receive approximately...
Making a Successful Transition

$610,000 in annual revenue (after operating costs of approximately 40%), assuming that his practice continues to grow at 5% a year. Bear in mind that independent owners have full control over the marketing, branding and growth rates of their businesses.

By choosing independence, Peter would have the flexibility to sell his practice at fair market value which, given this set of assumptions, could be as much as $3,700,000 (depending on the type and quality of the business he builds). The majority of that value would be taxed at long-term capital gains rates. In this example, assume that Peter’s blended tax rate for ordinary income as an independent contractor is 45% (including the self-employment tax that an independent business owner would pay) and that his blended tax rate for capital gains on the sale of his business is 25%.

If Peter were to decide to retire and sell his practice at the end of the same nine years, the total present value of his compensation and equity, after taxes, would be about $3,800,000.

Mark, Tom and Steve (Cont.)

new account packets to clients, Mark, Tom and Steve decided to hand-deliver all of their packets to their clients because they served a small number of wealthy clients. As a result of their hard work, most of their clients decided to join them at their new firm. “We probably took a little more than half of our assets, but we took between 82% and 85% of our revenue,” says Steve. “What we heard before we left is that you can take the clients you want to take with you and, for the most part, that was true.”

The team received large bonus offers from other wirehouses, but turned them down. “If you’re focused only on money that’s probably a mistake and not a good enough reason to make a transition,” says Tom. “Instead of thinking about money in hand today we are thinking about the next 25 to 30 years of freedom and flexibility.” The team’s transition to Raymond James’ independent contractor platform was mostly smooth, but there were some minor challenges along the way. “Clients with cash management accounts at our former employer’s firm were a little harder to move because of all the rewards programs and everything else involved,” says Tom. “The upside benefit here is that we have complete control over how we run our practice and Raymond James has one of the best client contact database systems in the industry.”
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LAUNCHING YOUR OWN RIA

Establishing an independent RIA may be the most demanding path to undertake, but it also stands to be the most rewarding. At Raymond James, we offer RIAs ready access to the robust resources, turnkey solutions and administrative assistance they need to exercise complete autonomy with ease.

COMPENSATION AND RETIREMENT PLANNING

The independent RIA model offers the most freedom and autonomy, as well as the most responsibility, for managing your practice. You keep 100% of investment advisor fees. You can set your own fee schedule, set your own office location and recruit staff members according to your specific needs. You have the ability to establish and fund a SEP IRA or individual 401(k). In addition, you have the ability to sell your practice to another advisor upon retirement, creating transferable value in your business.

TRANSITION TIMELINE

For most RIAs, a typical transition timeline ranges from three to nine months of combined due diligence and general planning before resigning from their previous firms. Your personal timeline may be shorter or longer depending on your needs and the complexity of your current practice.

- Catalyst phase: Timing varies
- Due diligence phase: 60 to 90 days
- Planning phase: 60 to 90 days
- Execution phase: 60 to 90 days pre-transition and up to about 90 days post-transition
- Thriving phase: Unlimited

REAL-LIFE INDEPENDENT RIA TRANSITION STORY

JOHN

Prior to establishing his own RIA, John worked for a major wirehouse for 15 years, where he managed a three-person team that included a partner and an administrative support person. During his long tenure at his prior employer, he believed the firm was becoming increasingly bureaucratic. “When companies get as big as some of the large wirehouses, you tend to get policies designed for the masses,” says John. “So regardless of the size of your personal accounts, you have the same limitations as advisors who are just starting out. I was in the top 10% of the firm and didn’t like being treated like everyone else.” That John and his partner owned small businesses outside of their advisory practice was a big catalyst for change. “We learned setting up your own businesses isn’t as terrible difficult as the perception might be,” he notes. “We started to ask ourselves why we were giving up half our income to a big bureaucratic system when we could do it on our own.”

John and his team recently established themselves as an RIA, using Raymond James as their primary custodian and business partner. It took the team about a year to plan for the transition. Raymond James provided the team with a personal liaison to help coordinate their move. The transition went relatively smoothly, although there was a learning curve to adapting to a new business platform. “It’s not always seamless and it’s not going to be identical to what you came from, but we’re really glad we made the move,” John says. Prior to the transition, he spoke with several peers who had made similar transitions, which helped to answer many of his questions. “Everyone we spoke with told us the same thing: A successful transition takes a lot of work and it’s not always easy, but it’s also not as hard as you might think,” adds John. “The steps you need to take are actually relatively simple.”

The team targeted bringing over about 90% of their client assets and they were successful. “We take a very proactive, hands-on approach to building client relationships and were in constant communication with our clients during the move,” says John. “As a result, the move
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THE FINANCIAL EQUATION
Of all the advisor business models available, the RIA undoubtedly requires the most time, energy and responsibility— but it also has the potential to generate the greatest long-term value.

Using a hypothetical situation, FP Transitions shows that some current wirehouse advisors could, over time, find it more financially rewarding to become RIAs than to accept upfront bonuses from other wirehouses. Taxes play a major role in this comparison. Bear in mind that wirehouse compensation, including any bonuses, is taxed at ordinary income rates. However, proceeds from the sale of a financial advisory practice, as a capital asset, is treated as a long-term capital gain. That can be an important economic advantage for the independent owner.

Here’s the example: Sam and Tom are a wirehouse advisory team serving mostly institutional clients. Their annual production is about $2 million a year, and they receive 50% payouts. If they were to accept a $4 million bonus to join another wirehouse, it would be spread out over nine years in annual payments of approximately $445,000. All of it would be taxed as ordinary income. This team could also expect to receive an average annual payout of approximately $1,200,000 from revenue, assuming the practice continued to grow at 5% a year over this period. For the purposes of this example, assume that their blended tax rate (including state and federal taxes) is 40%. Over a nine-year period, the present value of their total compensation, after taxes, is approximately $6,700,000.

If the team were to decide, instead, to establish their own RIA as the best way to serve their clients over the long term, they would estimate their potential income has been relatively seamless for our clients.” One thing that John likes about the RIA business model is the flexibility to choose the best third-party software and tools available in the market for financial advisors. He also likes the Raymond James Ambassador investment platform, which automates performance statement production and mailing, and provides clients with monthly performance information. “We’re proud of our investment performance and really like the fact that we can report performance monthly, rather than just quarterly.”

The team received several lucrative offers from other firms, but decided that establishing their own RIA would be more beneficial over the long term. “Once you cover your fixed costs, every dollar that you bring in going forward is dropping to your bottom line,” says John. “In addition, we’ve had considerable success in attracting new assets.” The team provides clients with comprehensive financial planning and fully discretionary account management. John offers the following advice for advisors making a transition: “Explore all of your options and set a firm date for making a move,” he says. “Creating a deadline for yourself gives you something concrete to work toward.

JOHN (CONT.)
over time. With payouts of 100%, they could expect $1,300,000 in average annual revenue (after operating costs of 45%), assuming that the practice continued to grow at 5% a year. They would also have the flexibility to sell the practice for up to $7,400,000 (depending on the type and quality of business they had built), the majority of it taxed at the long-term capital gains rate. If the partners decided to retire and sell the practice at the end of nine years, their total compensation and equity, after taxes, would be about $8,000,000.

In addition, during all this time Sam and Tom would have had full control over marketing and operations, as well as the growth of their practice. It's clear that even for a modestly sized financial advisory practice there are real choices with real consequences – and that in many cases, the independent path can lead to greater rewards over the long term.

**LEARN MORE**

Regardless of where you are in your transition process, gathering more information can help you move to the next step. Talk with peers who have made a transition similar to the one you're contemplating. In addition, contact a broad range of potential employers, broker/dealers and RIA custodians to thoroughly understand your options. To learn more about any of the Raymond James business models and about our transition services, please contact us at 866.608.4809.
MAKING A SUCCESSFUL TRANSITION

TOOL AND RESOURCES

TRANSITION MYTHS DEBUNKED

Below are some common misperceptions that advisors have about the transition process. If you share any of these concerns, you may want to use them as conversation starters with potential employers and/or business partners during the due diligence phase of your transition. In addition, you may want to discuss any concerns you may have with advisors who have made successful career transitions.

My clients won't follow me to my new firm/practice.
If you have solid, long-term client relationships and your clients can articulate the value of the service you provide to them, chances are good that most of them will move with you when you move to a new firm or business model. Keep in mind that you may have a few clients who choose to stay with your old firm for reasons that may be completely unrelated to the strength of your client-advisor relationship. However, most advisors who maintain regular contact with their clients and understand the strength of their client relationships do a good job of predicting how many clients will make the move with them to a new firm.

Moving my clients' assets to my new firm is the most important part of a transition.
Taking assets with you is important, but it's only part of what's required for a successful transition. A successful transition has three additional components: 1) You, as the advisor, need to be happy in your new environment. 2) Your business partners and support staff need to share your vision for the business and feel that they have the support and resources they need to do their jobs well. 3) Your clients need to be satisfied with the level of service and support they receive, and they need to feel that their needs are your top priority. By focusing on all of the components of a successful transition, you're more likely to have a positive transition experience.

My transition team will do everything for me.
Your transition team will be an invaluable resource during your transition, but even the best teams can't do everything for you. Successful transitions require a lot of hard work, which begins with you. Your role is to make sure that you understand every aspect of the transition and have clearly defined roles and responsibilities for you, your business partners, your support staff, and your transition team. The ultimate responsibility for ensuring a successful transition lies with you. Even with a high level of support from an experienced transition team, you should probably expect to work long days and weekends for several months leading up to your transition. While planning for and executing a successful transition requires a great deal of time at the start, you'll be able to enjoy the dividends of that hard work for many years to come.

I can leave all the administrative details of opening new accounts to my support staff, as well as all responsibility for understanding the operational standards of my new firm.
If you’re bringing support staff or administrative personnel with you to your new firm, they will play an invaluable role in opening new accounts and building a strong foundation for your new practice. At the same time, it’s important to understand as much of the administrative process as you can when it comes to opening new accounts and managing your general day-to-day operations. Life is unpredictable and you should be prepared to handle basic administrative requests if a staff member is absent for any reason. While learning the administrative side of a new business platform can be time consuming, it will help you create a more seamless and well-run practice over time.
I should only consider joining firms that participate in the Protocol.
The Protocol provides a useful framework for helping advisors execute career transitions, but it isn’t necessary to join a Protocol firm. What is important is to thoroughly understand the legal ramifications associated with resigning from your current employer and joining a new one, regardless of whether either or both are Protocol members. Most advisors will benefit from legal advice from an independent, third-party source prior to making a career transition. Your legal advisor can offer insights into how to best create a career transition that suits your personal needs and honors any existing employment contracts you may currently have. (For more information on the Protocol, see the next section.)

Most firms offer similar transition services.
Transition services can vary widely among different firms, so it’s important to have a clear understanding of what you can expect from your new firm’s transition team. (See “What to Ask Prospective Firms” on page 18.) An important question to ask is whether your transition team is dedicated full-time to helping you make your transition, or whether they have other responsibilities that are not related to your practice. For example, at many of the large wirehouses, your transition assistant may be someone else’s administrator who is temporarily pulled in to help you out, while still trying to handle his or her primary responsibilities on the side. At Raymond James, we have a full-time, dedicated team of 40 professionals whose primary responsibility is helping advisors make successful transitions.

UNDERSTANDING THE PROTOCOL
What is the Protocol?
In 2004, Merrill Lynch, Smith Barney and UBS created the Protocol for Broker Recruiting, a legal agreement designed to provide a more uniform set of rules governing what advisors can and cannot do when changing firms. Since then, many firms both large and small have joined the Protocol.

The stated goals of the Protocol are to limit litigation and arbitration between firms, as well as to allow a departing advisor to take limited client contact information, as long as the advisor follows certain procedures and guidelines. From a practical standpoint, the Protocol tends to reinforce the notion that many wirehouse firms believe that they – not the advisor – own the client relationship.

If resigning from a firm that is a member of the Protocol:
You can take a list of:
- Client names
- Account registrations (but not account numbers)
- Client addresses
- Account names (but not account numbers)
- Telephone and fax numbers
- E-mail addresses
You cannot take:
- Account numbers
- Financial statements
- Client files
• Screen prints
• Contact management notes or electronic files
• Financial and estate planning documents (including copies)
• Confidential information (Social Security numbers and dates of birth)
• Any information that is deemed to be confidential and/or proprietary

Needless to say, taking unauthorized information from your current employer may violate the law and increase your litigation risk. Moreover, soliciting existing clients while you are still employed at your current firm is a violation of your legal obligations and should be avoided at all costs. If management of your current employer learns of pre-solicitation, the consequences could include forced termination and potential U-5 issues.

Is Raymond James a Protocol Firm?
Because Raymond James offers a broad range of affiliation models, we have adopted the Protocol differently across different business channels. However, we have a clear, immutable philosophy that governs operations in all of our business channels. Regardless of the affiliation model you choose at Raymond James, we believe the client relationship always belongs to you, not the firm. We guarantee in writing that you will always own your book of business as long as you remain in good standing with the firm and meet certain criteria.

Raymond James & Associates, which oversees our traditional employee and independent employee channels, is a member of the Protocol. This is simply to help ensure that advisors who are moving from a Protocol firm to our traditional employee or independent employee business models experience the smoothest transition possible. Once advisors have joined Raymond James & Associates, they have the flexibility to move to another affiliation model over time or even move to another firm if they choose. We will never compete with advisors for their client relationships.

An Independent Contractor or RIA Can Join the Protocol.
Although Raymond James Financial Services is not a member of the Protocol, independent, advisor-owned firms within RJFS can become members. Advisors who create their own firms (also known as “DBAs”) at RJFS have the option of becoming a member of the Protocol, which we believe is consistent with our endorsement of the principles of freedom and control for advisors.
WHAT TO ASK PROSPECTIVE FIRMS

Here’s a list of questions you should ask when interviewing firms as part of your personal preparation and due diligence process.

• What transition support services do you provide advisors – before, during and after the transition?

• Do you provide on-site support and assistance (at my new office)? How much support is provided on site and how much is done via telephone or e-mail? What are the advantages/disadvantages of on-site support vs. telephone/e-mail support?

• Who provides the support services and where are members of my transition team located?

• Will my transition team include separate transition and technology consultants?

• What responsibilities will my transition team members have in addition to overseeing my transition?

• How will client accounts offered at my old firm “map” to accounts offered at my new firm? Who will help me identify and map account types?

• Who is responsible for preparing documents required to open accounts and to move clients from my old firm to my new firm?

• How will your transition team interface with my personal administrative team/support staff?

• What outside or independent resources do you recommend during the transition process?

• What, if any, fees do you charge for your transition services?

• What education and training does your transition team provide in regard to:
  – Account types/services
  – Compliance
  – Documentation
  – Operations
  – Technology
  – Accounting/Payroll

• What type of marketing support (if any) is offered for stationery, business cards, a logo and a website?