BRISKIN CONSULTING

Giving Fee-Only Advisers What They Want:

New Insights Into Their Challenges and Business Needs

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Over the past decade, there's been a stampede of financial professionals leaving the broker/dealer world or giving up their dually registered status to become independent fee-only investment advisers and financial planners.

New research conducted by Briskin Consulting explores the reasons why these advisers have made the switch and how they've benefited; how they're using outsourcing to access investment management and back-office services once provided by their broker-dealer; and which kinds of contacts from asset management wholesalers they're likely to respond to.

The Research Methodology

Briskin Consulting conducted this research through an online survey of 386 independent fee-only investment advisers and financial planners in principal Jeffrey Briskin's professional network. The survey was conducted in January and February 2024.

Some questions allowed respondents to select (or not select) multiple choices or "Other." Most questions allowed advisers to leave anonymous comments. Some of these comments are posted throughout this report.

> ***"Going fee-only in 2022 is the best career move I ever made. I wish I had done it years ago."***

Summary of Key Findings

- Nearly half of respondents now market themselves primarily as financial planners who also offer investment management services to clients. Less than one in five market themselves solely as investment advisers.
- Their most pressing business challenges are generating qualified leads and managing their back office effectively.
- Most outsource at least one function of their business that typically would be performed in-house (or handled by a broker/dealer).
- The most common business function they're outsourcing right now is traditional and digital marketing. The function they'd most like to outsource eventually is back-office management.
- Over half outsource ongoing investment management of at least some of their clients' assets.
- Most advisers receive, on average, between 10 to 30 unsolicited marketing emails and/or calls a week from asset management wholesalers. Less than 5 percent of advisers respond to more than one of these weekly cold contacts.

"I get so many fund performance emails from wholesalers that I made filters that send any email with '%', 'returns' 'performance' or 'top' in their subject lines straight to my 'deleted emails' folder."

Key Demographics of Survey Respondents

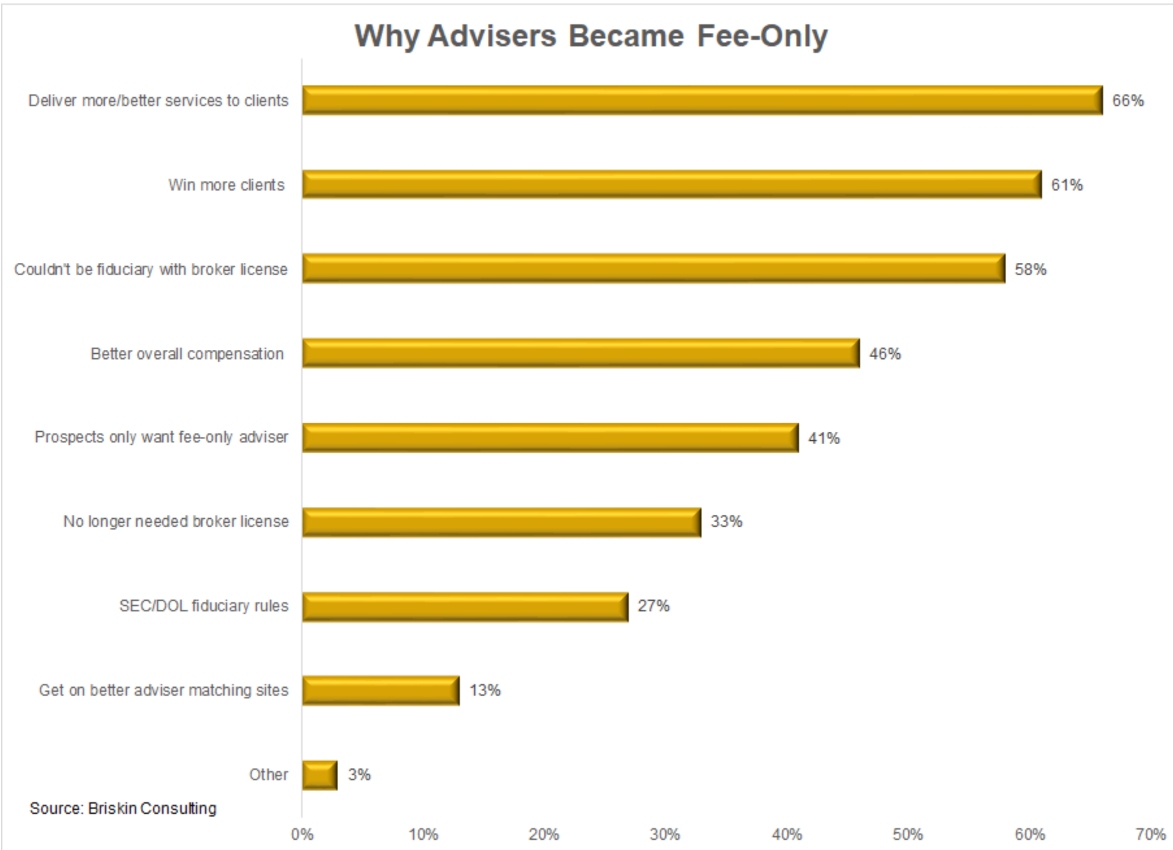
Most survey respondents have at least 10 years of advisory experience, but less than half have been fee-only advisers for more than a decade.

- 68 percent are age 50 or older.
- 71 percent have earned at least one financial planning credential, such as a CFP® or ChFC® designation.
- 81 percent provide financial planning services in addition to investment management services.
- 73 percent have worked in the advisory industry for at least 10 years and 14 percent have more than 25 years' experience.
- 46 percent have been fee-only advisers for more than 10 years (this includes advisers who started their careers as fee-only advisers).
- 88 percent began their advisory careers either as registered reps or dually registered investment advisers before becoming fee-only investment advisers. The remaining 12 percent have always been fee-only investment advisers.
- 21 percent run their RIAs as a sole practitioner; 65 percent work for RIA firms with 2-10 advisers; and 14 percent work for RIAs with 10 or more advisers.
- 49 percent manage between $100 million-$500 million in client assets. 6 percent manage more than $500 million in client assets.
- On average, 84 percent of their clients are individuals and families; 8 percent are employer retirement plans; 3 percent are endowments and foundations, and 5 percent are "other."
- Of their individual and family clients, on average clients with $500,000-$3 million in investable assets comprise 68 percent of their book of business; those with $3 million-$10 million comprise 16 percent; and those with over $10 million comprise 2 percent. (The remainder are clients with accounts valued less than $500,000.)
- On average, 47 percent of their clients are age 60 or older. Only 13 percent, on average, are 40 or younger.
- 89 percent of survey respondents are men.

"Most of my prospects are in their 60s. None of them want an adviser who just manages money. They want me to help them figure out Medicare and Social Security, when they should sell their home, and where they should live when they retire. By necessity, I've become a retirement counselor."

Why They Made the Switch to Fee-Only

Only 12 percent of respondents began their careers as fee-only investment advisers. Thirty-one percent were registered representatives before they made the switch, and 57 percent were dually registered advisers.

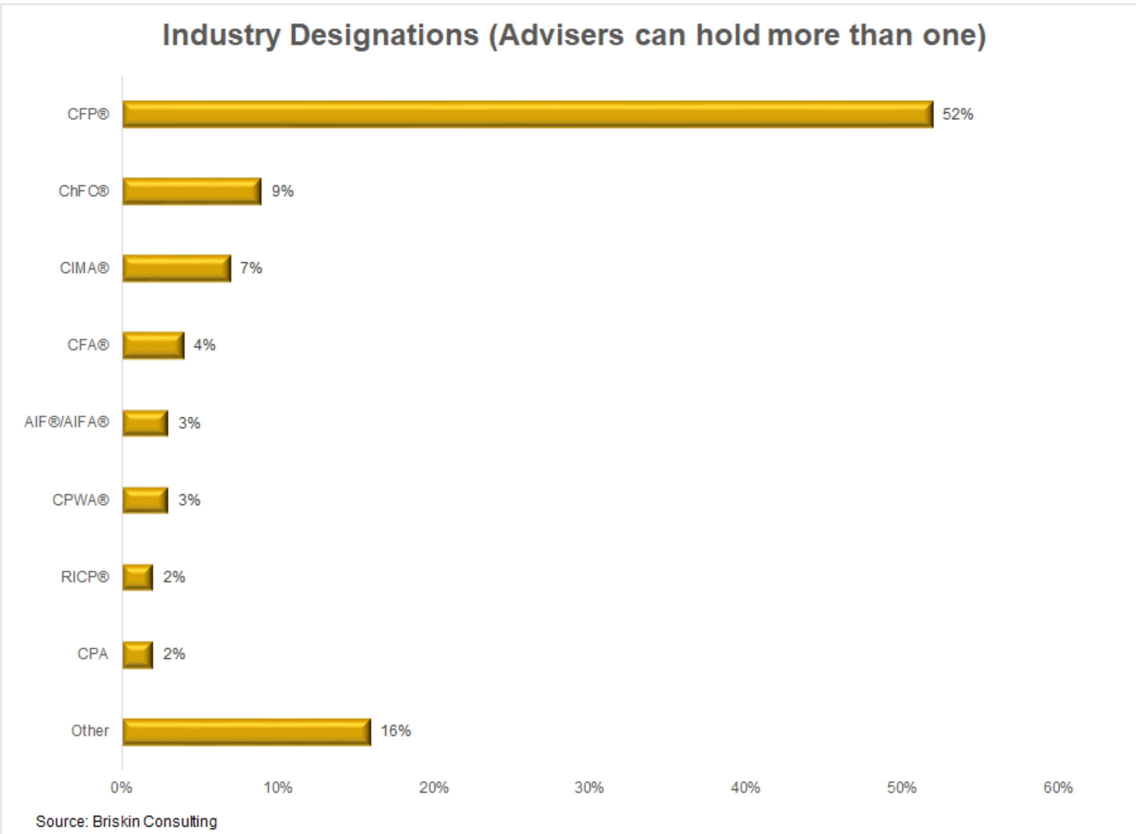


For most respondents who moved to the fee-only model, their motivations to shed their broker/dealer affiliations were market-and-client driven. And, with new SEC and DOL fiduciary regulations creating logistical nightmares for registered reps and dually licensed advisers, many felt that terminating their securities licenses would allow them to fully serve as fiduciaries for their clients. "Other" write-in answers included "Worried about clients suing me" and "Tired of the broker/dealer sales culture."

> ***"The younger clients I'm trying to win know a lot more about [the] fiduciary standard than their parents. They want advisers who always act in their best interests all the time."***

Highly Credentialed

Most survey respondents are committed to gaining the advanced knowledge they need to legitimately claim to be financial planners, which is why a much larger percentage (71 percent) have earned financial planning designations (such as the CFP®) than the population of financial professionals as a whole.

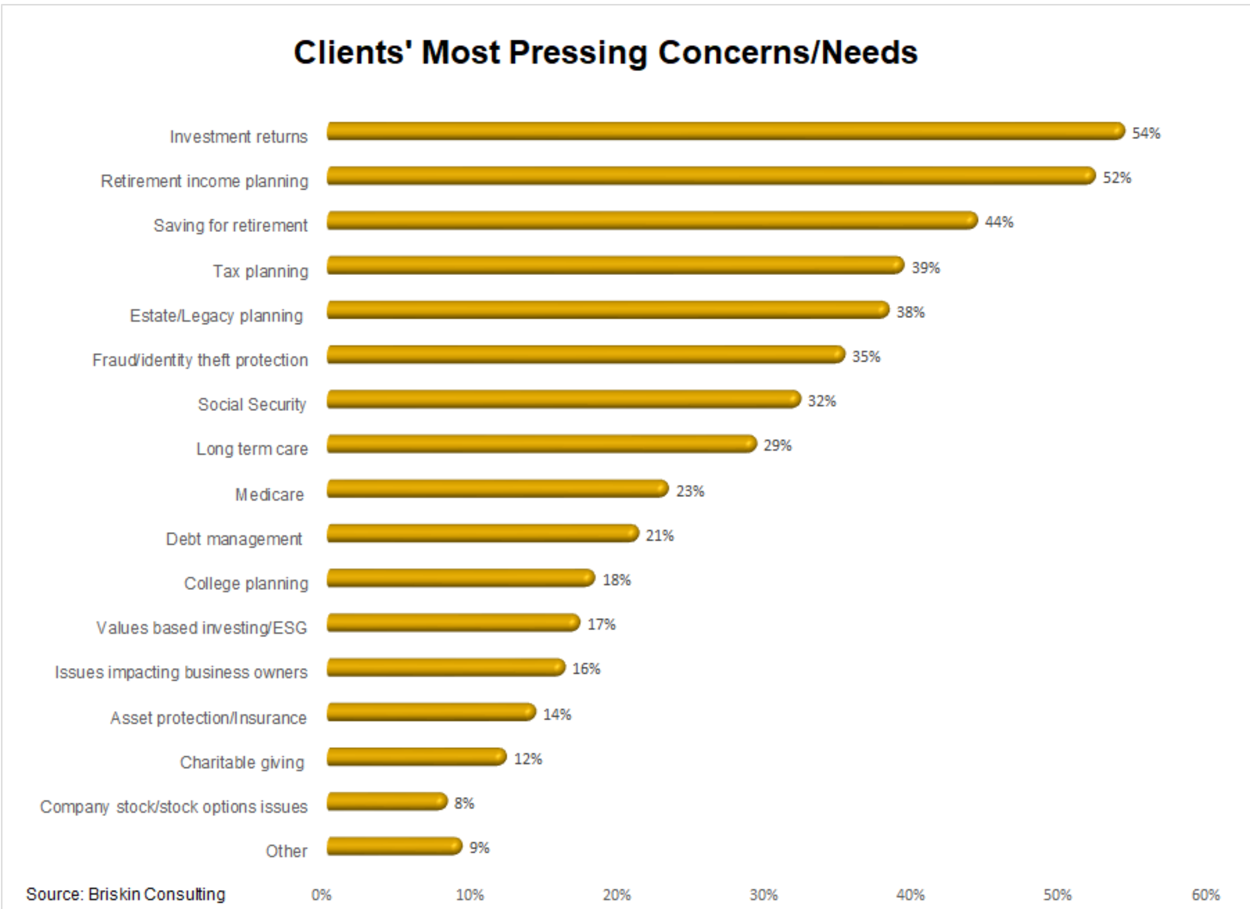


How They Market Themselves

- 44% market themselves as fee-only financial planners who also offer investment management services.
- 37% market themselves as fee-only investment advisers who also offer financial planning services.
- 19% market themselves solely as fee-only investment advisers.

Their Clients' Biggest Concerns

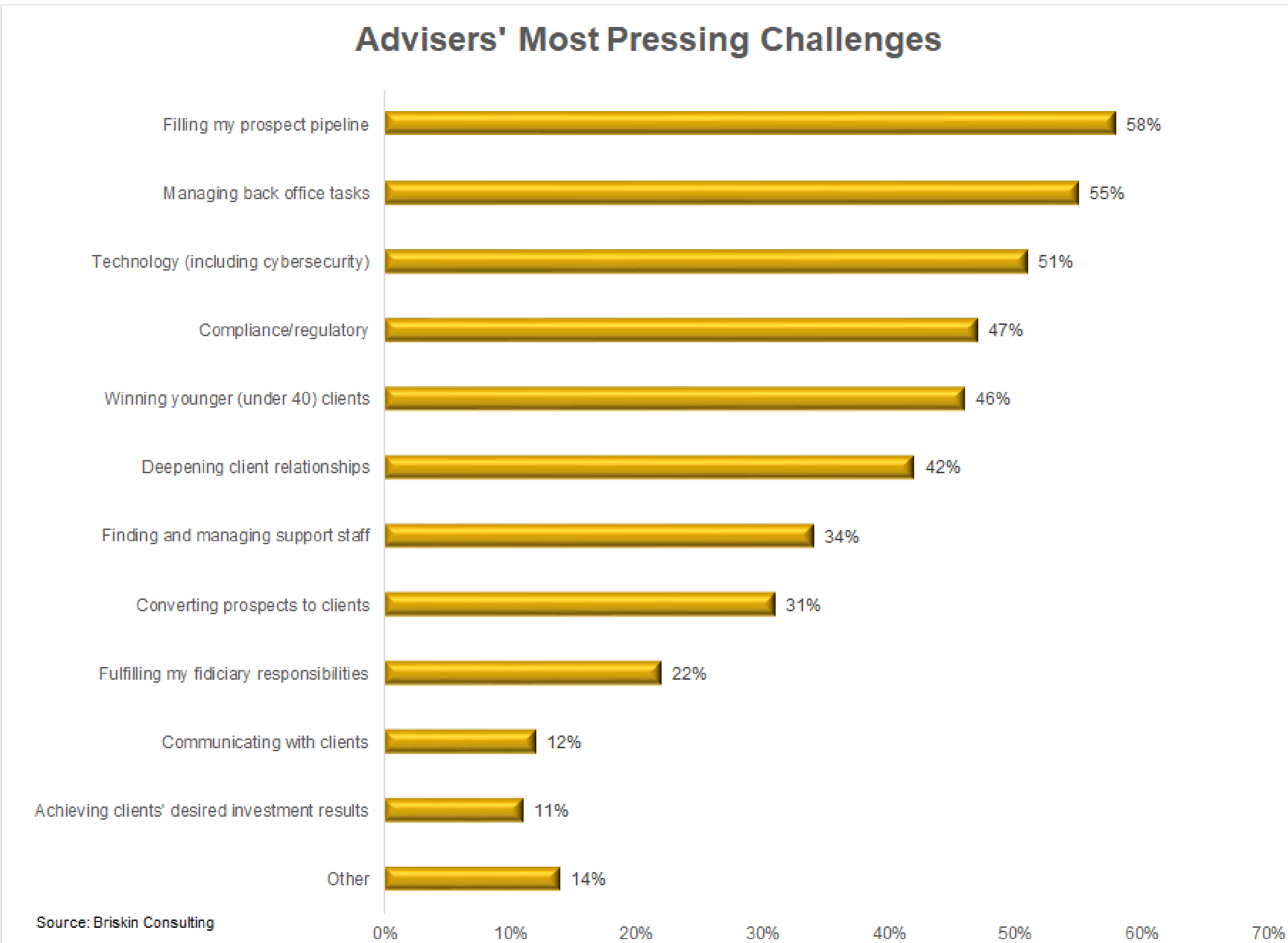
In the past, most clients came to advisers for help to improve investment returns. While portfolio performance is still their most pressing concern, they're also looking for professional guidance and assistance on a broad spectrum of financial planning issues.



[Female adviser] "My target [audience is] wealthy single and divorced women and widows. They hire me to help them become smarter about taking control of their finances, since many of them never made these decisions on their own when they were married. Maximizing investment returns is almost never a huge concern."

Advisers' Biggest Challenges

Only 11 percent of respondents worry about meeting their clients' targeted investment returns. Their most significant concerns are in the business development realm—generating leads, winning younger clients and deepening relationships with existing clients. Their other most pressing challenge is finding enough time and energy to manage their back office and compliance tasks. (Note: respondents could choose up to three answers and write in other concerns.)

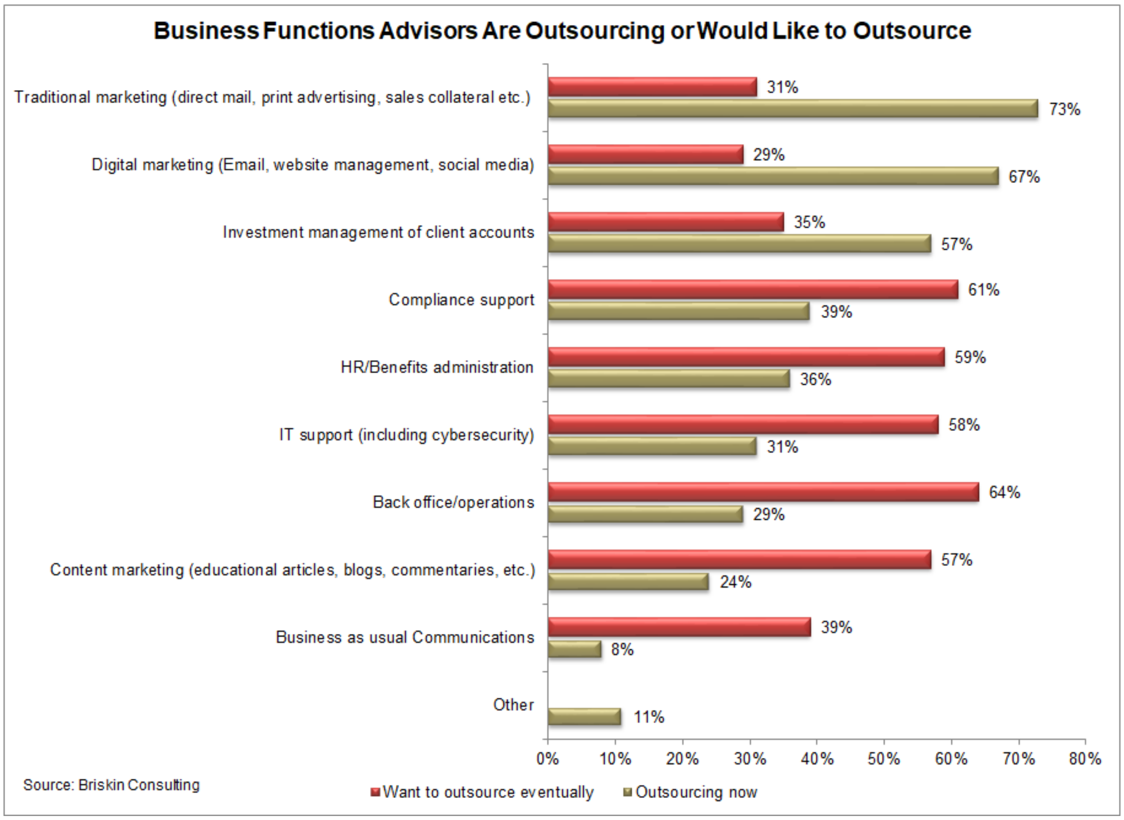


It's interesting that nearly 25% chose "fulfilling my fiduciary responsibilities" as a challenge. Further analysis that compares those who cited this challenge with the length of time they've served as fee-only advisers might reveal whether understanding their role as fiduciaries is a major learning curve.

Write-in answers for the "Other" category included "establishing connections with clients' children"; "using social media effectively"; and "being asked to help with financial issues I don't know enough about."

Outsourcing

Managing an independent RIA or financial planning firm isn't easy. Without an affiliated broker/dealer to provide back-office, operational, compliance, IT and marketing support, fee-only advisers often have to do this work on their own or hire people to do it for them. Many are now outsourcing many of these functions to TAMPs, fintech firms, and other outsourced service providers. Respondents were asked both what they were outsourcing now and what they wish they could outsource at a future time.



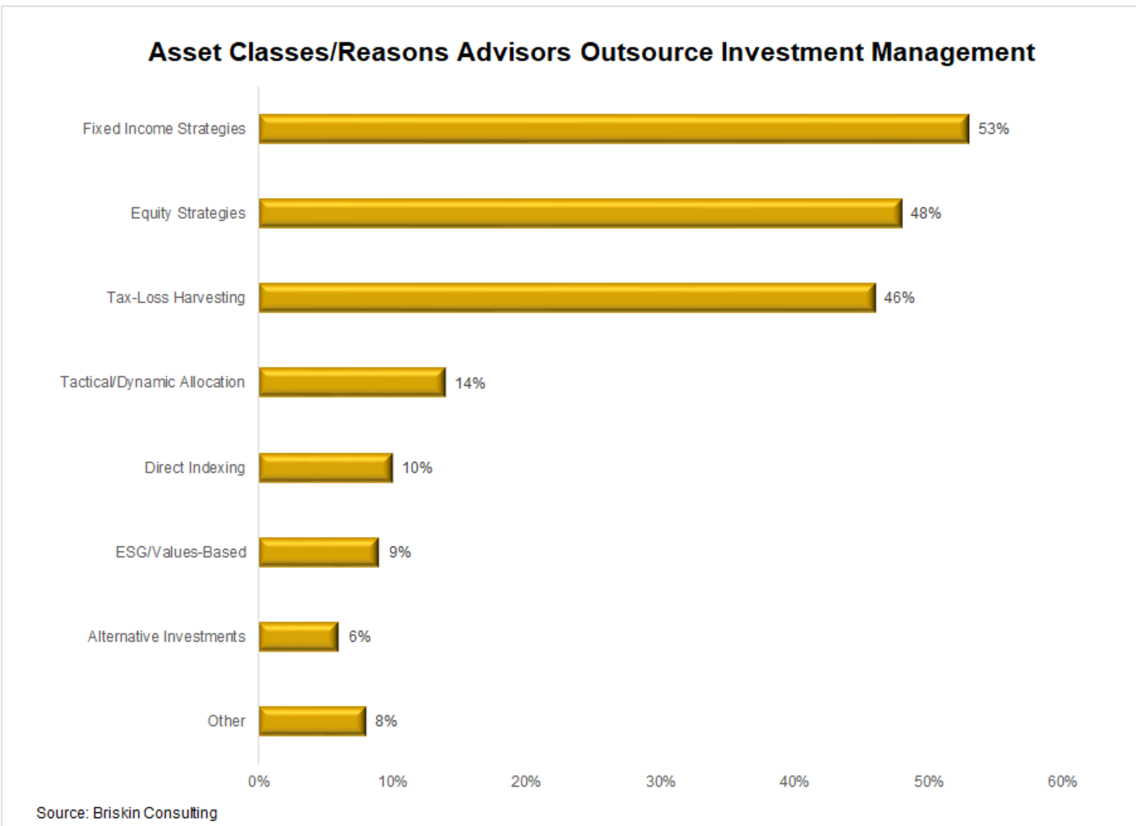
Not surprisingly, traditional and digital marketing is what they outsource most. Yet, more than half of respondents are outsourcing investment management for some of their clients. And nearly two thirds would eventually like to outsource at least some back office and compliance functions. Write-in answers included "accounting/finance," "bookkeeping," and "virtual receptionist."

> ***"I can't wait until AI lets me outsource everything in my back office."***

Investment Outsourcing

As fee-only advisers embrace their primary role as financial planners, many find it less necessary to manage their clients' assets themselves. Fifty-seven percent of respondents are using an outside resource to either manage some of their clients' assets directly, or they're allocating portfolios following models provided by independent researchers and outside asset managers.

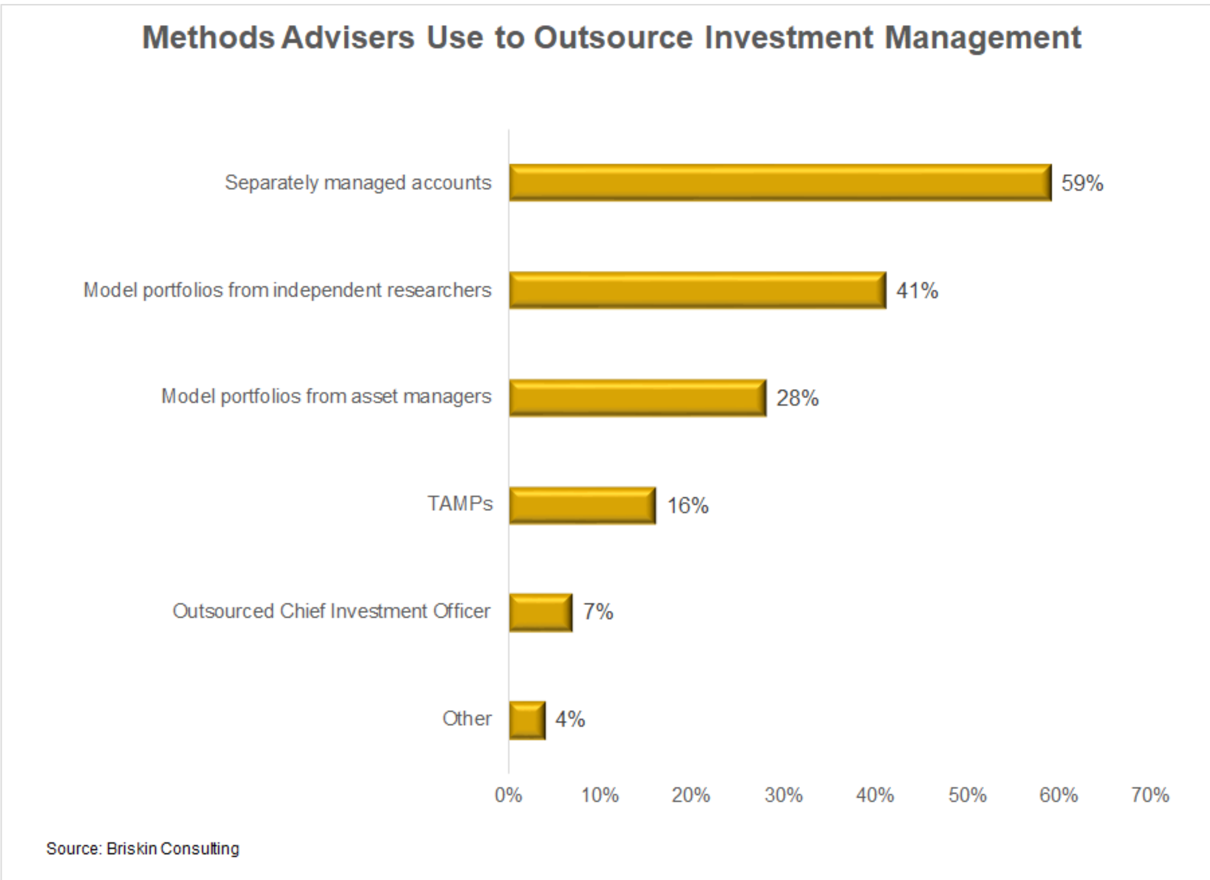
Those who outsource investment management could choose up to three reasons why they do so.



Most indicated that they wanted to give their clients access to customized equity and fixed income strategies. Others selected reasons that made it easier to fulfill their clients' specific investment mandates. Among the "mandate" choices, tax-loss harvesting, a key benefit of using separately managed accounts, was the most selected reason. Interestingly, relatively few use outsourcing to offer ESG or values-based solutions. Write-in answers included "REITs," "commodities" and "cryptocurrency."

Outsourcing Methods

The 53% of advisers who outsource investment management generally use separately managed accounts with their high-net-worth clients (those with more than $3 million in assets) and model portfolios for clients with accounts ranging from $500,000 million to $3 million.



The 43 percent of respondents who said they're not outsourcing investment management for at least some of their clients were asked to write in the reasons for not doing so. The majority of their answers fell into these main categories:

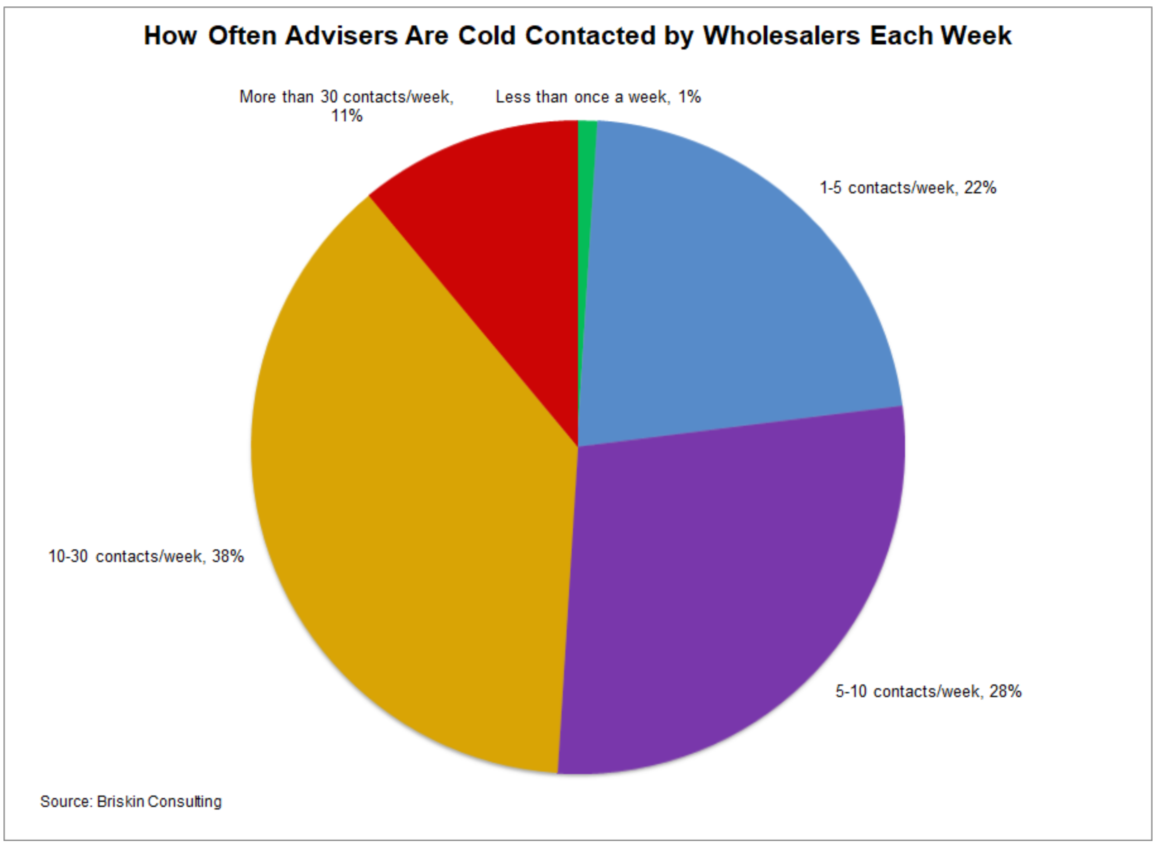
- Difficulty in understanding and evaluating strategies and platforms.
- Concerns about costs and revenue impact.
- Worries that clients might question their advisory fees if they're not managing their portfolios directly.

The Diminishing Role of Wholesalers

Asset management firm wholesalers were once welcome in most advisory firms as a valued source of fund information and sales ideas. In many broker-only firms, they still are.

But their presence is less welcome among the growing population of fee-only advisers. As fiduciaries, they rely on third-party researchers like Morningstar and Lipper for the information they need to evaluate mutual funds and ETFs. Few are receptive to cold calls and marketing emails from fund companies they don't work with.

Yet, wholesalers don't seem to be getting the message. Advisers were asked how many cold contacts they receive every week from wholesalers, and how many they respond to.

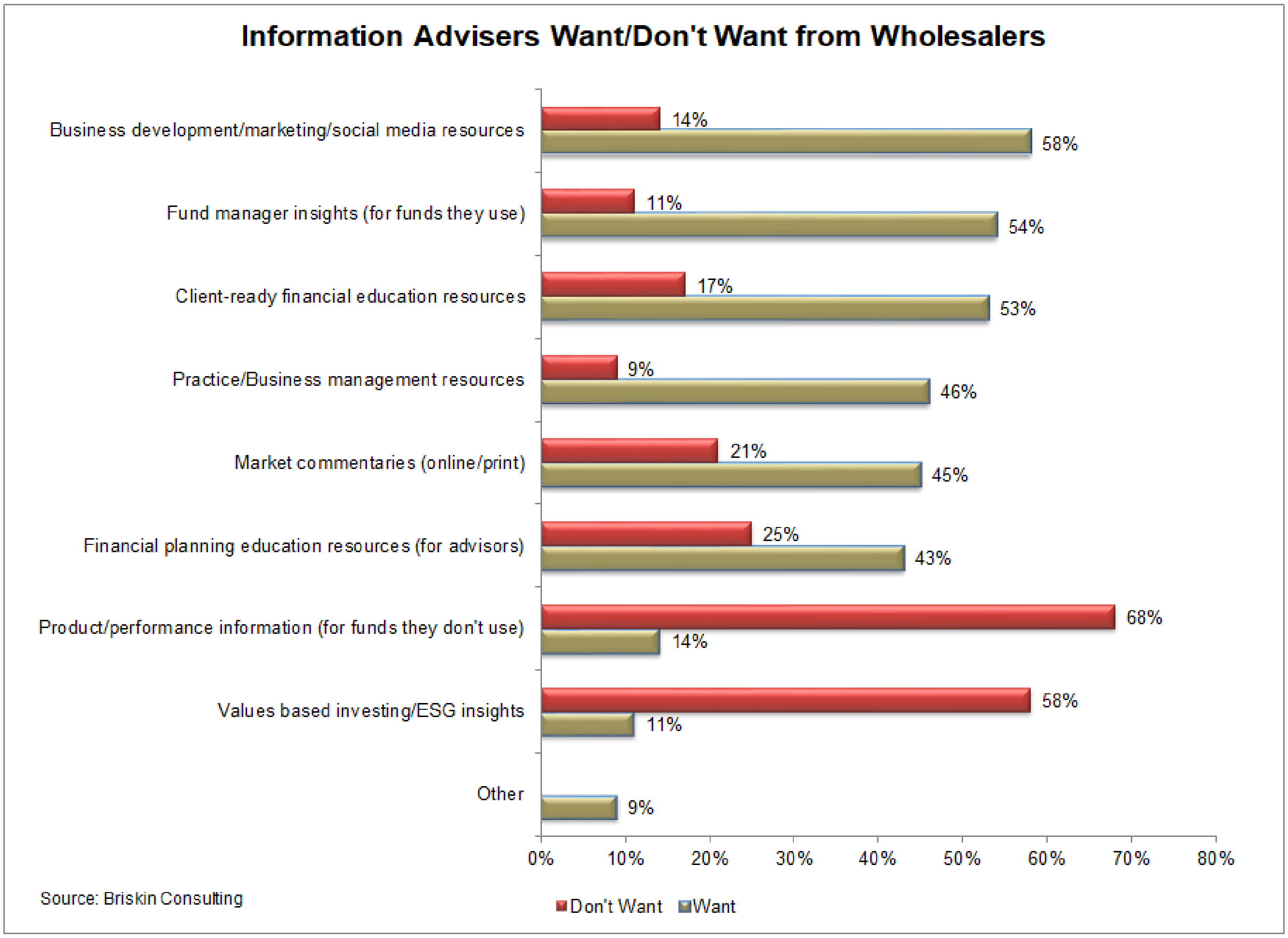


Nearly half received at least 10 cold contacts from wholesalers each week. Most of these contacts are ignored. Seventy-four percent said they never respond to any email message or voicemail or take a live call from a wholesaler from an asset manager they don't work with. Eighteen percent said respond to one contact per week, and only 3 percent said they respond to two or more contacts.

What They Want from Wholesalers

Most wholesalers still primarily pitch “product and performance” in their contacts. But this isn’t the information fee-only advisers care about. They do their own research on the investments they recommend for their clients.

Even with the wholesalers and fund companies with whom they have relationships, they’re very picky about the kinds of offers they’re willing to respond to.

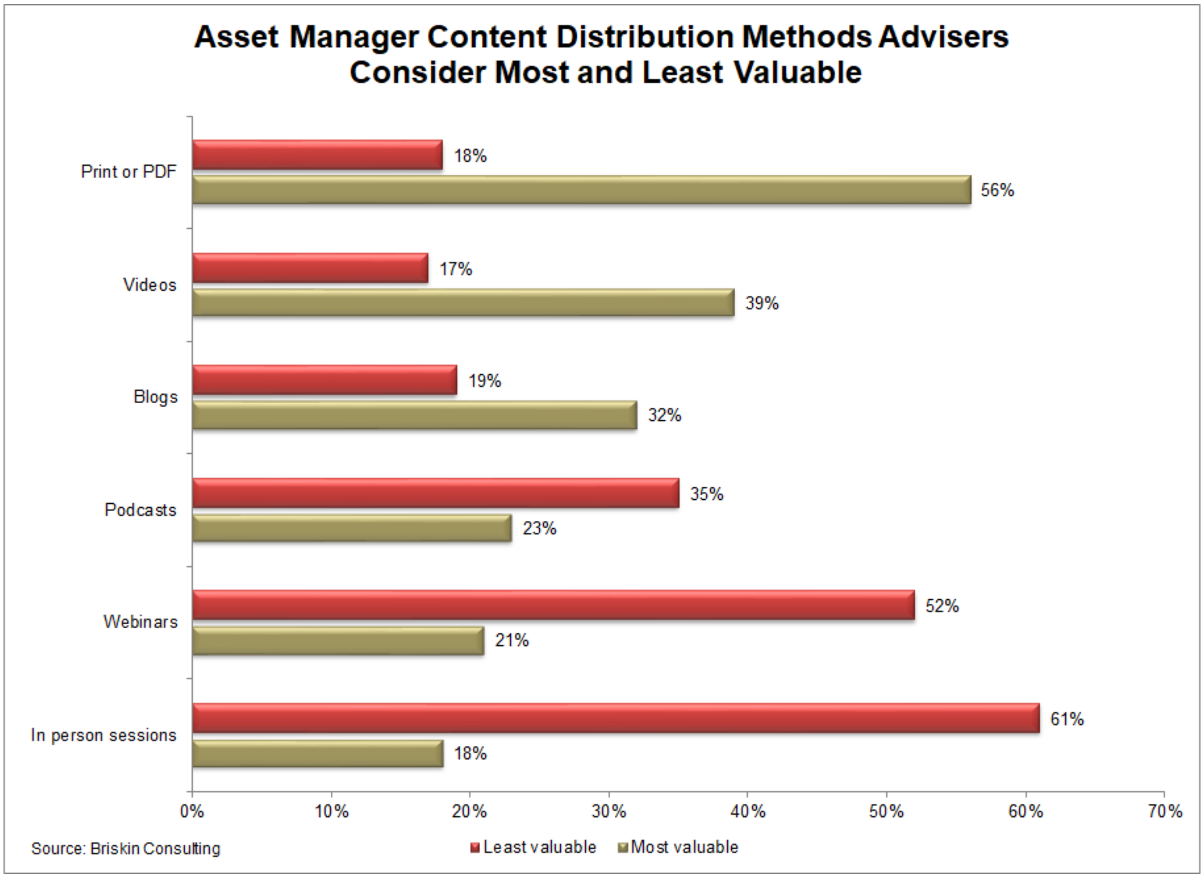


They’re far more likely to respond to offers of content that can help them generate more business and enhance their clients’ financial knowledge. In terms of fund-related information, they want insights on funds they use with their clients, but don’t want information for funds they don’t.

Write-in answers for “Other” included: “Regulatory updates”; “Notifications of changes in Morningstar ratings”; and “Daily/weekly updates of fund holdings.”

Preferred Content Formats

In addition to being very selective about the kinds of offers they're open to receiving from wholesalers, respondents are also very particular about content formats.



On the whole, fee-only advisers are far more receptive to content they can consume at their own pace. A larger number of advisers under age 50 are receptive to blogs and podcasts than their older counterparts, who prefer printed content. Just about all suffered from Zoom overload during the COVID-19 crisis, and now a majority are less interested in tuning into webinars. And less than one in five wants these sessions conducted in-person.

"I'll watch fund manager videos as long as they're short. Anything longer than five minutes and my eyes glaze over."

Conclusion

Fee-only advisers represent a very small percentage of all advisers—perhaps no more than 15 percent.

However, their ranks are expected to grow. Younger people are looking for financial planners who provide their services as unconflicted fiduciaries. Many registered reps are tired of jumping through compliance hoops to meet the regulatory demands of Reg BI and other fiduciary rules.

Others are finding that nearly all of their compensation comes from investment advisory and financial planning fees, making an affiliation with a broker/dealer (and the burden of both SEC and FINRA oversight) unnecessary.

As many of these registered reps and dually registered advisers move to a fee-only model and either start their own RIA or join an established RIA, they often find themselves missing the comfortable blanket of technology, operations, HR support, compliance and marketing services their broker/dealer once provided.

This need for outsourced business management resources is creating opportunities for third party providers to fill these gaps beyond their core offering of investment management solutions. Firms that can help independent fee-only advisers win more clients and assets by easing their back-office concerns will be well-positioned to benefit from this ongoing fee-only migration.

About the Author

Jeffrey Briskin is the principal of Briskin Consulting, a Boston-area strategic marketing and content marketing firm serving asset managers, TAMPs and fintech firms. He has more than two decades of experience working as a marketing executive for mutual fund companies, wealth management firms, and advisor publications. He is also the author of *Bethlehem Boys*, a Nativity-themed crime novel. He can be reached at jeff@jeffbriskin.com or via his website, www.jeffbriskin.net.