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Snowden Perspectives: *"All Hybrids are Created Equal but Some Hybrids are More Equal than Others"*

It's nearly impossible these days to pick up a financial advisor publication without reading about another wirehouse advisor team starting life anew at a hybrid RIA. When the exodus to independence first began, there weren't many hybrids, and few advisors had a sense of what it meant to operate as a dually-registered advisor outside a wirehouse. Over time, advisor interest has grown, giving rise to many new hybrid RIAs. Advisors considering independence would do well to consider carefully how they will achieve "hybrid" capabilities - because some hybrids are more equal than others.

So why are hybrids the fastest growing independent model?

First, hybrids offer choice. Sophisticated advisors know today's high net-worth clients require more than just investment advice. Clients need help *solving* complex issues like increasing longevity and retirement; long term care and disability; financial and estate planning; special needs children and grandchildren; and philanthropic issues. Providing solutions requires broad capabilities.

Hybrids accomplish this by providing clients both investment advisory and brokerage services. The advisor delivers investment advisory services through the RIA (fee-based), and executes transactions through the broker-dealer (commission-based). Typically, hybrid advisors are predominantly fee-based, but recognize the utility of having a broker-dealer when it may not be in the client's best interest to manage assets for a fee, for example, when a client may seek to hold a static position outside of their advisory account.

Hybrid advisors offer clients a variety of services and investment products, many of which are not typical for an RIA but are important to clients. These include alternative investments, structured products, equity IPOs and fixed income new issues, insurance, and variable annuities.

Today, advisors contemplating the move to an RIA hybrid have more choices than their pioneering predecessors. But while the options have increased, so has the risk of making a decision that may not work out "as advertised."

For those considering the move, here are some questions to ask yourself and your prospective employer.

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About Snowden Lane Partners

Snowden is a client-focused, financial advisor-owned, and national branded independent wealth advisory firm. Through its open-architecture platform, Snowden delivers wealth advisory services to high net worth individuals, families and foundations. For more information about Snowden, please visit www.snowdenlane.com.

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Who owns and manages your prospective broker-dealer?

If the broker-dealer is a non-affiliated third-party company, advisors should bear in mind that it is likely owned and managed by people with different goals, profit incentives and strategies. In some cases the broker-dealer's brand may compete with the brand the RIA seeks to promote.

What's on your prospective broker-dealer's menu and why?

Prospective hybrid advisors should appreciate that conflicts of interest are not left at the wirehouse door. In considering a broker-dealer's product menu, advisors should ask if the broker-dealer accepts payments by product sponsors to make "shelf space" available. Conflicts, like revenue sharing, also exist at large independent broker-dealers. And, of course, some independent broker-dealers market proprietary products, or risky private placements, which in the past have led to the demise of some firms.

Can your prospective broker-dealer customize?

Most prospective hybrid advisors will map clients' current brokerage holdings to their selected broker-dealer's product menu. The process identifies products not supported by the broker-dealer and determines its willingness to assume products used by clients. This can be a significant issue for sophisticated clients with complex investments like alternatives, hedge funds or private equity. It's worth asking, what is your prospective broker-dealer's capability and willingness to sign up products and product carriers that may be important to your clients?

How big is your prospective broker-dealer?

Personalized service, responsiveness and broker-dealer compliance are areas that challenge large independent broker-dealers as well as wirehouses. How quickly are business, compliance and risk decisions made? Does the broker-dealer supervise via one-size-fits-all policies? Typically, the larger the platform, the lower the "least common denominator" of these policies, the more layers of bureaucracy, and the greater the risk of these "dis-economies of scale".

Wirehouse advisors can easily find that they have traded one bureaucratic environment for another.

Broadly speaking, institutional scale in wealth management is no longer the competitive advantage it's been for the past four decades. In fact, size, in many ways, has become a noticeable hindrance.

Boutiques Work

The model many top advisors and their clients have come to believe in is the high-touch, integrated RIA/broker-dealer boutique. In this model, both the RIA and broker-dealer are under common ownership and management. They share common goals – and advisors are owners. The firm can customize its product menu and provide highly personalized service. Further, firm compensation arrangements are transparent to advisors.

Importantly, advisors will want to understand who manages and controls the component firms they choose. A small firm may provide the advantages of customization, personalization and agility, but managing a broker-dealer is complicated and requires experienced management.