



The Advice Industry and the Momentum Towards Fees

Building a Fee Based or Fee Only Business



The continued momentum behind the fees model is clear and increasing across the industry. At Cambridge, we continue to believe that the long-term goals for investing clients are often best served in fee based programs, and a combination of fee and commission business is often the best model for financial professionals with an independent mindset.

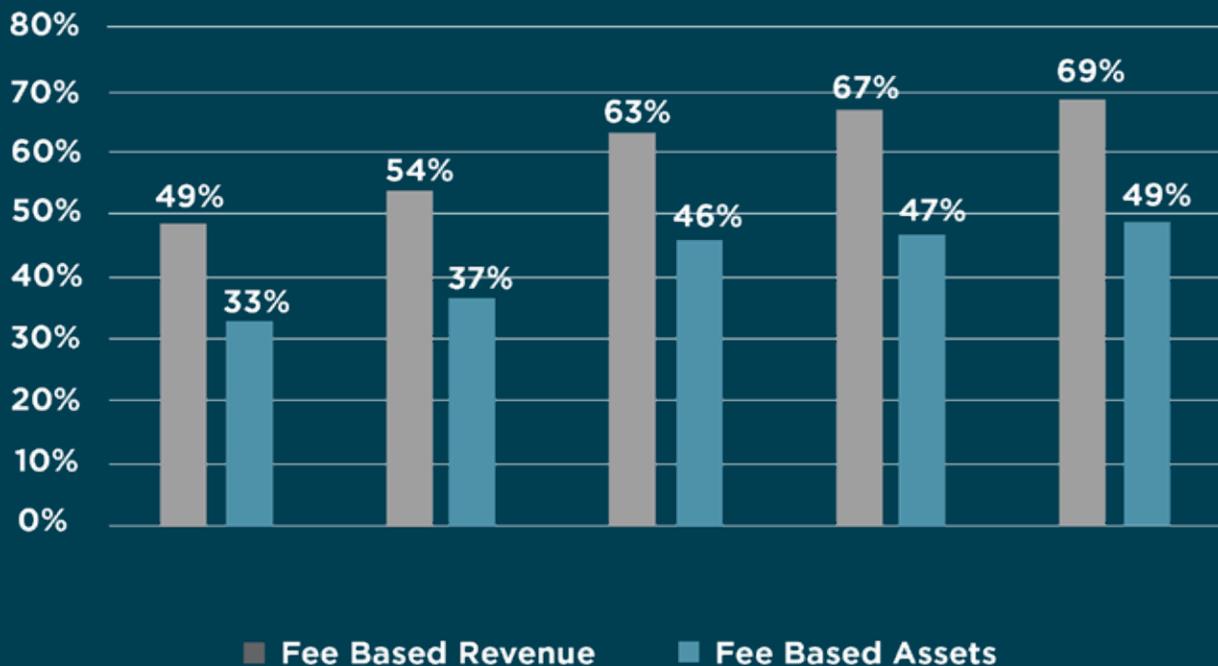
Amy Webber
President, Cambridge

THE CASE FOR FEES

A clear trend towards fee based and fee only programs has developed across the advice industry over the last 20 years. As momentum towards fees continues to build, financial professionals have a unique opportunity to meet changing client demand by repositioning their business. A 2019 Cerulli Associates study¹ found that 62 percent of investor households now prefer fee based payment arrangements over commissions. This shift represents a reversal of traditional client preference. In 2011, Cerulli¹ found that just 27 percent of all investor households preferred to pay a fee, while 44 percent favored a commission arrangement.

Many clients now prefer a holistic approach to financial planning that addresses many different aspects of wealth management, and are willing to pay a fee for these additional services. This shift in client preference has led to increases in fee production since 2015. Fee based revenue² now contributes 69 percent of overall gross revenues, up from 49 percent in 2015. Fee momentum continues and provides attractive benefits to both investing clients and financial professionals.

FEE BASED REVENUE GROWTH (2015-19)





THE RISE OF FEE BASED BUSINESS

Our team acts as a one stop shop, and supports your growth and acquisition every step of the way.

An evolution in client perception of money management and approach to financial planning is partly responsible for the progressive shift towards fees. Just 10 percent of investors were even aware of fee only models in 2011, compared to 34 percent¹ by the end of 2018.

Fees are increasing in popularity, in part, because investors now favor the holistic service experience and overall transparency that comes with a fee based model. Through a fee structure, financial professionals can better serve the best interests of clients

by providing a more expansive wealth management experience that strives to address the client's financial objectives from a comprehensive view. By creating customized approaches that meet these individual needs, financial professionals can provide services designed to help clients maximize efficiency and reach their financial goals. Moreover, a fee program provides financial professionals with the freedom to focus on the appropriate investment solutions and portfolio strategies.

THE BENEFITS OF A FEE MODEL

In addition to benefits to clients, you and your business can also enjoy several key advantages that come with a fee model. Some of the most significant include:

Predictable Income | Fee based and fee only models strive to produce recurring income, which can lead to steady annual revenue figures. Predictable flows of income allow you to make projections and effectively track the progress of your growing business.

Increased Client Loyalty | When you work closely with clients by providing holistic financial planning services that strive to address all of their needs, a relationship built on trust and transparency develops. This bond often naturally leads to referrals. Trending with increases in client demand for fees, the share of clients willing to refer a primary financial professional rose¹ from 61 percent in 2010 to 84 percent in 2018. In other words, a move to fee based accounts could mean more business for you.

Staged Retirement | One of the great benefits of predictable and consistent recurring revenues is the ability to plan for retirement. Under the fee compensation structure, you can effectively develop a succession and retirement plan without hindering your ability to deliver a consistent client experience and ensure your clients will be taken care of by your chosen successor.

Increased Business Value | Many industry publications³ use a two-times-sales multiple for fee based business, and a one time-sales multiple for commission business. This means your business may be more valuable under a fee based structure. When it comes time to retire, you can potentially earn more for your business under a fee model.

Flexibility | Fee based accounts give you the ability to adjust a client's portfolio readily and economically to respond to changing conditions.



TRANSITIONING TO FEES: SIX STEPS TO CONSIDER

After deciding to transition to a fee based business structure, you need to re-evaluate your unique value proposition. Prospective clients need to know how you will serve them better than one of your competitors. Conveying value to the client is one of the most important elements of a transition from commissions to fees. The focus of your business also needs to be re-defined, and will likely tie into the modification of your value proposition. Some fee based financial professionals, for example, are focused specifically on asset allocation. Others specialize in retirement or estate planning.

Once you've determined the focus and value proposition of your fee based business, you can begin the transition process. Some of the steps to consider include:

1. DETERMINE THE SERVICES YOU WILL OFFER

Decide where your strengths are and build services that execute on them. To help you define your services, Cambridge has created a Fee Service Schedule that you can personalize to meet your needs.

Keep in mind that outsourcing some tasks to a third party is a perfectly viable option. Centrally managed platforms strive to offer high levels of efficiency, allowing you to effectively outsource asset allocation, portfolio construction, monitoring, trading, and rebalancing.⁴

2. SEGMENT YOUR CLIENT BASE

Many financial professionals create four segment categories – labeled A, B, C, and D – and group clients in each bracket⁴ based on value and financial goals. When transferring your business to a fee based model, take a close look at your client base and consider making a similar table. This chart will help you decide how you want to tailor your services to effectively meet the needs of each group.

3. DETERMINE YOUR FEE STRUCTURE

When setting your fees, conduct a thorough market analysis. Do you offer similar services to those of your competitors? How does your service quality stack up with your competition? What do your competitors' fee schedules look like? The answers to these questions will help you determine a successful fee structure based on AUM.

Consider also conducting a thorough self-analysis. How much do you spend to run your business? What is your ideal take home pay? Come up with an appropriate value for your services based on what you'll be doing for your clients, and think about the time commitment you'll be dedicating to each activity. It's also important to develop clear and sound reasoning behind your decisions so you can provide clients with explanations for your fee structure.

Finally, decide how you want to be paid. Common ways of charging clients include, tiered fees, flat fee percentage, retainer fees, and hourly fees.

Cambridge works directly with financial professionals to establish a fee structure based on industry norms and expectations from an investing client perspective. Our Advisory Services Fee Schedule and Financial Life Planning Fee Schedule were designed to help you set a fee structure based on the services you will offer. Once you've completed the schedules to your liking, you can use these documents to explain your fee structure with clients.

4. FINALIZE A TRANSITION TIMELINE

Develop a detailed timeline and focus on hitting your checkpoints throughout the process. Many firms⁴ focus on a three to nine-month timeline, but every business is different.

Cambridge's practice management programs offer personalized coaching to help you create an effective timeline and meet your short and long-term goals.

5. ESTABLISH A CLIENT COMMUNICATION PROCESS

Never leave your clients in the dark as you convert your business to fees. Create a calendar outline that addresses client communication. Determine a schedule for meeting with investing clients, and consider setting up special events so you can discuss the value of fee based accounts.

Cambridge offers a variety of business solutions with turnkey marketing tools that you can use to effectively communicate with your clients throughout your transition.

6. MOVE THE ACCOUNTS

When beginning the process of converting your clients' accounts from commission to fee structures, start with transitioning small accounts first and work up from there.



SIMPLIFY YOUR TRANSITION WITH CAMBRIDGE

Building a fee based or fee only approach will take a good amount of time, energy, and effort, but partnering with the right firm can make the process a smooth and efficient one. As a registered investment advisor and broker-dealer, Cambridge has the resources, technology, and experience to help you execute a change of this caliber without hindering the high-quality service your clients have come to expect.

Flexibility is one of the core values in which we take great pride. Providing our over 3,600 financial professionals with the wide variety of tools they need to be successful is what motivates us every day. As we have grown, so has our range of services and solutions, many of which are specifically designed to help financial professionals convert their practices to a fee based model. To help you make a swift transition, we provide:

ADVICE SOLUTIONS

Cambridge delivers advice solutions based on you and your clients' needs and objectives so you can successfully serve their best interests. Our financial professionals have the freedom to align with our corporate RIA, Cambridge Investment Research Advisors, Inc. (CIRA), or maintain their own independent RIA. We provide regulatory support and guidance to assist our independent RIAs with key responsibilities, such as regulatory filings, drafting of disclosure documents, and written policies and procedures. We also offer advice and guidance in other areas, including:

- Platform choices comprised of a corporate RIA or independent RIA for dual registration or fee only business models
- Marketing
- Succession and acquisition
- Business technology
- Asset management and financial planning
- Outsource services centered on independent financial professional firms, including business consulting, client marketing, office assistance, and insurance services

TRANSITION SUPPORT

Your clients come first. Never is this more important than when making a big change to your business. As you transition from commissions to fees, ensuring that your clients are informed and educated about the changes you are making is vital. Cambridge's transition tools help you develop a detailed timeline, hit your key checkpoints during the process, and confidently articulate your decisions to clients. Specifically, The Cambridge Transition Experience helps you:

- Create customized transition plans that track key milestones, including tasks, trainings, consultations, and other resources
- Support client retention efforts with easy-to-understand paperwork, marketing materials, eSignature capabilities, and pre-written client communication pieces
- Complete the transition as efficiently and quickly as possible

CAMBRIDGE ADVISOR ADVANTAGE

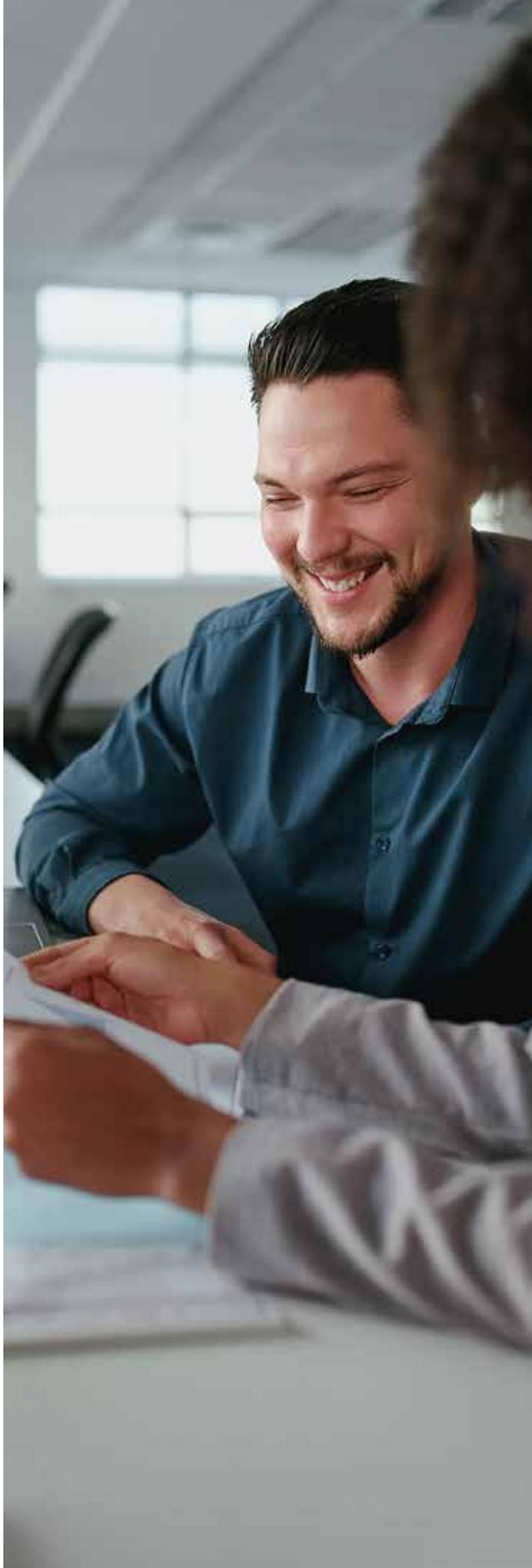
Cambridge has long believed a combination of fees and commissions is often the best way to support the needs of independent financial professionals and their investing clients. It was this belief that led Eric Schwartz, our founder, to pioneer the hybrid model when he created Cambridge in 1981. Now more than ever, we are committed to supporting fee based business models. For Cambridge, this means leveraging advancements in technology and product evolution to further enhance fee based solutions within the requirements of the new regulatory environment.

As the Fee Experts^{®5}, we designed Advisor Advantage[®] to help financial professionals manage their fee only businesses.

ADVISOR ADVANTAGE

Cambridge's Advisor Advantage strives to provide intelligent flexibility to our independent financial professionals who use a fee only business structure. The platform offers several key solutions that handle the tedious day-to-day tasks that a fee model may present so you can spend more time with your clients and focus on serving their best interests. Specifically, Advisor Advantage alleviates compliance liability, leverages technology options, and streamlines day-to-day operations. Other benefits of Advisor Advantage include:⁶

- Clearing Firm/Custody Access
- Third-party Manager Access
- Full E&O Coverage
- IAR Affiliation – CIRA
- Relationship Agreement
- Client Advisory Agreement – Cambridge Investment Research Advisors, Inc. (CIRA), and RIA
- Cambridge Events, Programs, Services, and Featured Solutions Access (CLIC[®], CLIC Advisor, WealthPort[®])
- Product Management (Managing VA Sub-Accounts)
- Fixed Index Annuities or Group Annuities
- Product Sales (Selling and Servicing Agent on Alternative Investments in Advisory Accounts)



GETTING AHEAD OF THE TREND

Greater levels of trust and transparency, growing demand for holistic financial planning services, and increases in client awareness are factors that continue to drive the momentum towards fee based compensation structures. This consistent and gradual trend towards fees is likely to continue as financial professionals are seen as client partners in pursuit of long-term goals rather than transaction facilitators.

“

I skate to where the puck is going, not where it has been.

Wayne Gretzky
Hall of Fame
Hockey Player

For financial professionals looking for a way to best serve clients in today's financial climate, a transition to fees may be a solution worth considering. The advantages of a fee based approach for both financial professionals and their clients are substantial. In addition to recent research that indicates clients now favor a fee based relationship, financial professionals can benefit from consistent and predictable income, mutual incentives, increased client loyalty, staged retirement, and greater earnings potential. Fees also give financial professionals the flexibility to tailor and customize services to clients in ways that will meet all of their financial goals.

Finally, transitioning to a fee based model doesn't have to mean a complete abandonment of commission transactions. There are some clients who may prefer a commission approach. The choice between a brokerage and fee based arrangement is reliant on each account's objectives. The hybrid model, which features elements of both a fee and commission arrangement, is effective in serving clients on both sides of the fence. Regardless of your chosen business approach, Cambridge is committed to providing flexible guidance to all financial professionals.

Contact a Business Development Director (TheFeeExperts@cir2.com) to learn more about Cambridge and how to partner with us at 877-688-2369.

About Cambridge

Cambridge Investment Group, Inc. is a financial solutions firm focused on serving independent financial professionals and their investing clients. Cambridge offers a broad range of choices for independent financial professionals regarding solutions for advice, growth, technology, and independence. Cambridge's national reach includes: Cambridge Investment Research Advisors, Inc. – a large corporate RIA; and Cambridge Investment Research, Inc. – an independent broker-dealer, member FINRA/SIPC, that is among the largest internally controlled independent broker-dealers in the country.

Cambridge Investment Research, Inc.
1776 Pleasant Plain Road | Fairfield, Iowa 52556
877-688-2369 | [JoinCambridge.com](https://www.JoinCambridge.com)



¹Szala, G. (2019). Have fee-based models won the battle... or the war? ThinkAdvisor.

Retrieved from <https://www.thinkadvisor.com/2019/02/21/have-fee-based-models-won-the-battle-or-the-war/>

²McKinsey. (2020). The state of North American retail wealth management: 9th Annual PriceMetrix Report. Retrieved from <https://www.mckinsey.com/~media/mckinsey/industries/financial%20services/our%20insights/the%20state%20of%20north%20american%20retail%20wealth%20management/state-of-north-american-retail-wealth-management.pdf>

³Flakes, P. (2020). Valuation trends and methods for financial planning firms. Wealth Management.

Retrieved from <https://www.wealthmanagement.com/careers/valuation-trends-and-methods-financial-planning-firms>

⁴Symmetry. (n.d.). Making the case for fee-based business.

Retrieved from https://www.cir2.com/Documents/Internal/Client%20Outreach%20and%20Marketing/Symmetry_The%20Case%20for%20Fee%20based.pdf

⁵THE FEE EXPERTS® is a registered trade mark of Cambridge Investment Research, Inc. for its investment advisory service for investment managers.

⁶Cambridge Advisor Advantage Brochure

The information discussed herein is general in nature and provided for informational purposes only. There is no guarantee as to its accuracy or completeness. Nothing in this white paper constitutes an offer to sell or a solicitation of any offer to buy any type of securities. All rights reserved.

Securities offered through Cambridge Investment Research, Inc., a broker-dealer, member FINRA/SIPC, and investment advisory services offered through Cambridge Investment Research Advisors, Inc., a Registered Investment Adviser. Both are wholly-owned subsidiaries of Cambridge Investment Group, Inc. For financial professional use only V.CIR.0721-2210