CAMBRIDGE
You control the journey.

COMPELLING REASONS TO CONSIDER FEES FOR ADVISORS AND THEIR INVESTING CLIENTS

Regulatory pressures facing the advice industry, which includes increased scrutiny regarding commissions, as well as the needs of investing clients for holistic financial guidance, are compelling reasons for financial professionals to consider the fee-based model.

Cambridge Investment Research, Inc. (Cambridge) has long believed a combination of fees and commissions was often the best way to support the needs of independent advisors and their investing clients. Now more than ever, the firm is 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. For example, in anticipation of new regulation regarding fee disclosures, Cambridge has been exploring technology partnerships that could provide competitive advantages regarding fee disclosures.

> **"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 advisors with an independent mindset."**
>
> Amy Webber, President, Cambridge

In fact, according to 'The State of Retail Wealth Management,' fee-based assets managed by advisors has grown steadily in recent years, "as advisors are continuing to transition to fee-based accounts."*

Why Fee-based Accounts?

A fee-based business model is mutually beneficial to both advisors and their investing clients and creates an enduring and positive relationship between the investing client and their trusted advisor. Together they can clearly focus on a comprehensive approach and plan based on the investing clients' financial objectives.

The fees model creates trust and develops deeper relationships.

From the client perspective, knowing an advisor's revenue is based on a transparent fee schedule that's discussed up front and set either by assets under management or a flat service fee can go a long way toward creating trust. In turn, investing clients can avail themselves of unbiased, quality guidance from financial professionals with an independent mindset. All in all, if an advisor's fee is based on the investing client's assets, both parties' interests are better aligned; when clients do well, so do their advisors.

A fee-based model increases business viability and value for continuity and succession planning.

Proper succession planning – or a lack thereof – is one of the biggest issues confronting the financial advisory industry today. Industry data demonstrates that fee-based businesses are more valuable to acquire than commission-based businesses, largely because of the recurring nature of a fee engagement with an investing client. A fee-based business is also beneficial to the process of business continuity, as it can be easily adopted or replicated by other professionals' intent on providing quality advice and service to the investing clients. From the client perspective, a well-orchestrated and carefully thought-out succession plan serves to enhance confidence and trust as it demonstrates the commitment by the advisor to the best interests of the investing client, even if the unthinkable should happen to the advisor, or the advisor makes plans to retire. And, with a clear succession plan in place, there's a positive impact on client referrals and the retention of successive generations of client families.

A staged retirement is possible with a fee-based model

For some time, Cambridge has been leading the industry in recommending a fee-based approach for independent financial advisors planning for their own retirement. The model provides the ability to define a planned transition over a period of time to an advisor's successor – while delivering a consistent client experience.

What are the key steps to building a fee-based practice?

For those advisors who have not yet converted their business to a fee-based model, the following steps make for a good modus operandi:

1. **Be informed and educated on the new definition of fiduciary duty**

   The U.S. Department of Labor (DOL) first proposed a new definition of fiduciary duty in 2010, and the proposal went through two separate iterations. According to the DOL, the rule is intended to ensure retirement investors are aware of conflicts of interest and eliminate and/or mitigate those conflicts. The rule is also aimed at providing affordable advice to retirement investors. The DOL announced its final rule on April 6, 2016.

   Cambridge has been preparing for the possibility of new rules – from the DOL, the SEC, or both – for a couple of years; and they've been working to make sure Cambridge would be in position to help protect advisors and keep their advisory and retirement plan businesses compliant as the regulations continue to evolve. This includes working proactively internally and in multiple external channels to create product strategies and compensation structures designed to comply with all of the anticipated requirements in the DOL rule. In January of 2016, Cambridge announced its new Fiduciary Services Department staffed with subject matter experts who are familiar with the concept of being held to a formal fiduciary definition.

2. **Choose whether to be a Registered Investment Adviser (RIA) or use a corporate RIA**

   When an advisor creates an RIA, this comes with increased direct regulatory liability and burden. With this heightened regulatory scrutiny, more focus and time will be required for meeting and monitoring implementation of required reporting; as well continued development of procedures and policies related to compliance. An alternative is the use of a corporate RIA, and this option can mitigate the pressure of direct regulatory scrutiny and audit related issues. In exchange for slightly less control for the advisor, the advisor will be able to take advantage of the corporate RIA which shoulders the primary RIA liability – enabling the advisor to spend more time with clients, as well as managing and gathering assets. Cambridge supports approximately 3,000 independent financial professionals nationwide who serve their clients as registered representatives and investment adviser representatives choosing to use either Cambridge's firm Registered Investment Adviser or their own.

3. **Choose whether to be a money manager or utilize third party experts**

   In either situation, an advisor must decide if they best serve their investing clients by being a money manager or utilizing the money management of third party experts. Cambridge recommends that advisors contemplate the activities they prefer to be directly engaged in with their investing clients, and determine what activity can be done more efficiently and effectively by third party experts. Either way, the advisor manages the decision as to which options and platforms are best suited to their investing clients' needs, and in keeping with the advisor's investment and business philosophy.

4. **Determine a fee schedule**

   In determining fees, the advisor should take into account both expertise and years of experience while estimating the number of hours needed to adequately provide each service. Cambridge offers consultation to advisors regarding fee schedule options based on industry norms and expectations from an investing client view. In addition, it will be important to understand new regulation focused on levelized compensation and acceptable or reasonable fees. Regulatory guidance is not yet fully clear, but Cambridge believes that consideration must include the needs of the investing client, as well as the nature, scope, and frequency of service provided. Being specific in detailing the services provided, such as providing asset allocation, and acting as a professional human element that helps the investing client with choices on actions and timing, and so on, will be important in defining fees.

5. **Create a business plan for fee-based services**
   In creating a business plan, it is important to include short- and long-term business goals and create a system to measure progress against these goals. The plan must also reflect how quickly the advisor's business can effectively integrate the full-service approach for fee-based clients, and this includes both current and prospective clients. Cambridge's coaches offer practical guidance for these types of plans with personalized engagement as part of our practice management programs focused on the advisor's business success.

6. **Establish a client communication process**
   Outline on a calendar future meetings with investing clients and consider special events that make sense for the advisor to host to discuss the value and approach of fee-based accounts. Track when and how (email, phone, face-to-face, etc.) each client is contacted. Cambridge's business solutions for advisors includes turnkey marketing options that an advisor can personalize for use with investing clients.

7. **Expand fee-based client services**
   Consider developing materials for investing clients, while observing all relevant compliance rules, and have these readily available before contacting clients. These materials could include the advisor's value statements, fee schedule, and an overview on the merits of fee-based accounts from the view of the investing client, as well as personalized goals focused on the specific needs of the investing client. With these resources in place, the advisor and their staff can begin scheduling face-to-face client meetings. As this activity gets underway, a process will naturally develop that works best for the investing clients and the advisor. Cambridge's experts can offer recommendations based on best practice of other advisors.

8. **Choose the right partner**
   Advisors with an independent mindset need support that enables them to make the choices that best fit their business needs as they focus on serving the personal preferences and financial objectives of their investing clients. Independent business models vary and range from solo practices to ensembles to super branches or small broker-dealers, but quality advisors are dedicated to the delivery of objective financial advice to investing clients.

At Cambridge, we are committed to independence and unbiased financial guidance. We also know there will be change across the advice industry, and we are focused on assisting and supporting independent advisors in assessing and adapting their business models in the face of change. We believe it is crucial to accept that change on some level is inevitable, but it is important to know we remain confident we can adapt and find the opportunity for mutual success.

We believe the investing public needs and wants independent advice, and we are confident the advice industry will remain viable as long as it successfully adapts to the needs of advisors and their investing clients.

*The State of Wealth Management – 5th Annual Report by Price Metrix
http://www.pricemetrix.com/state-retail-wealth-management-5th-annual-report/