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2014 IBD Report Card

Top 10 IBDs #4

INDEPENDENT FINANCIAL GROUP

Overall Score: 9.6

Location: San Diego, CA

Number of Producing Advisors: 495

Firm AUM: $9.95 Billion

CEO: Joe Miller

WealthManagement.com

Smaller Firms, Happier Advisors. Can it Last? by Megan Leonhardt

Finding the best tools and resources to run a practice effectively is why independent advisors choose one broker/dealer over another. There are lots of quantifiable reasons an advisor sticks with a firm, but like any good relationship, there is also an intangible quality to what makes it work.

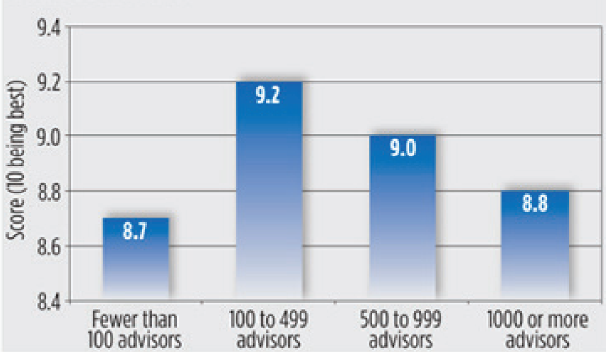
And indeed, most relationships between independent brokers and their firms are working well. In our fourth Independent Broker/Dealer Report Card, a survey that lets advisors from independent brokerages rate their employers on a number of factors, advisors reported they were very satisfied with their firms overall. The average approval rating was 9.0 on a scale of one (lowest) to 10 (highest). "Any broker/dealer who is scoring above a 9.0 is doing an outstanding job," says Philip Palaveev, founder of The Ensemble Practice. "If someone was under an 8.0, that's cause for concern."

Even so, patterns emerge when looking at the aggregate data. The survey shows that among all the factors that may lead to advisor satisfaction, or dissatisfaction, with their firm, size is among the most important. Overall, advisors at small to mid-sized firms were more satisfied than those working with larger firms.

The sweet spot seems to fall among firms with 100 to 500 brokers—such as Summit Financial Services and VSR Financial Services. Firms in this category earned an average satisfaction rating of 9.2, according to the survey results. (See chart below)

Size Matters

While overall satisfaction varied by firm, the results showed reps at b/ds with 100 to 499 advisors were the most satisfied. The smallest firms, those with under 100 reps, were the least satisfied.

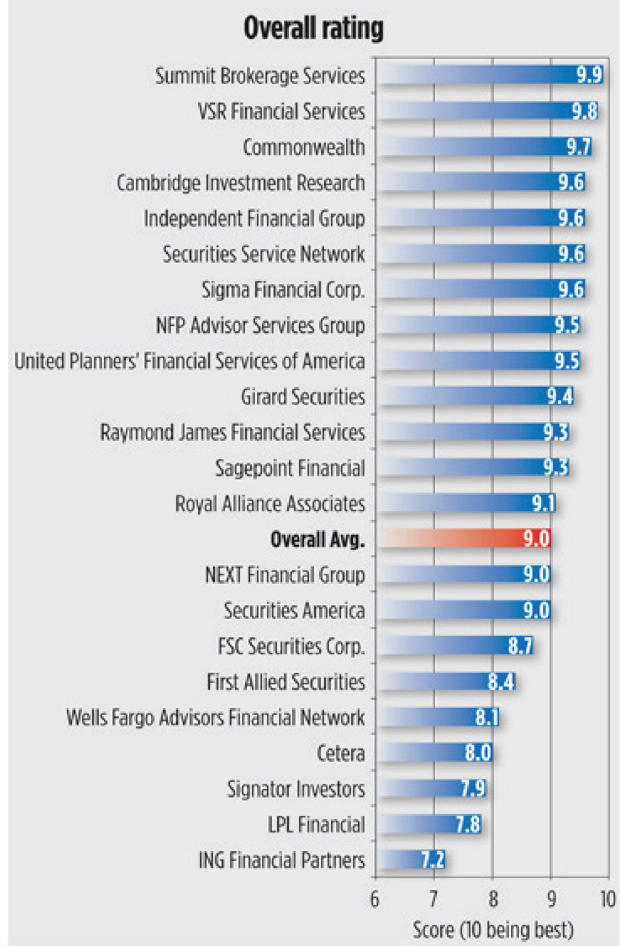


It's not a huge surprise. "It's easier for small to medium firms to have strong relationships with their reps," says Jonathan Henschen, president of recruiting firm Henschen & Associates.

Yet this is an industry that benefits from economies of scale—if a firm is too small, it struggles economically. Last year, 250 broker/dealers, the vast majority with less than 100 advisors, closed up shop, according to David Alsup, founder of Fishbowl Strategies.

The Scores Are In

Most firms received very high marks from their advisors, with the overall average score rising slightly from 8.9 in 2013 to 9.0 this year. NEXT Financial saw the biggest individual jump from last year, 8.5 in 2013 to 9.0 this year.



One such b/d, Orrington, Maine-based Financial Services of New England, closed in June, with co-owner Gary Tourtillotte saying the two-person b/d just couldn't keep up. "The increasing compliance workload became too unmanageable. We just weren't big enough," Tourtillotte says.

Research by Tiburon Strategic Advisors estimates the average IBD has a mere 2 percent profit margin. The struggles of those smaller firms fueled the recent surge in mergers, Henschen says.

Nicholas Schorsch's RCS Capital purchased three independent broker/dealers in recent months, each with fewer than 500 advisors, including Investors Capital Corp., Summit Financial and most recently, J.P. Turner.

Palaveev cautions that smaller firms' overall scores may not tell the whole story for every advisor. "Some advisors will find they need a larger platform and many offices."

Undoubtedly true, yet the lowest scoring firms on our report card were also among those with over 1,000 advisors: ING Financial Partners (7.2), LPL Financial (7.8), Signator (7.9) and Wells Fargo Advisors Financial Network (8.1). "The one unifying factor with LPL, Wells Fargo and Signator is there could be some feeling by their advisors that they are not the focus," says Scott Smith, director at Cerulli Associates.

Advisor retention is also a good indicator of how firms are doing, Palaveev says. "It's not just the satisfaction scores, but who is likely to lose a significant percentage of their respondents." By that measure as well, most are doing well. Slightly over 87 percent said they were very likely to be with their current firm a year from now. "These guys own their own business and could go anywhere. But basically 87 percent of them are saying 'I'm happy where I am and I'm not looking to move,'" says Tom Daley, founder and CEO of online recruiting platform The Advisor Center. That's a good sign for firm management.

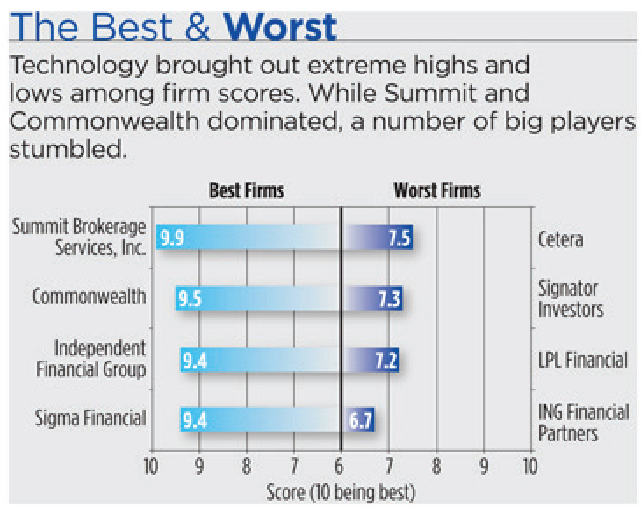
Too Many Options? by Megan Leonhardt

If relationships are the heart of the advisory business, technology, it could be argued, is the circulatory system, ensuring the information that supports the relationship goes where it's needed without trouble.

In that respect brokerage firms are increasingly healthy. For the third year in a row, firms' overall average technology score increased, this year to 8.7 up from 8.5. (See chart, below.) Summit Brokerage Services and Commonwealth had the highest ratings at 9.9 and 9.5, respectively.

Commonwealth, for one, seems to be getting a return on its technology, including their Client360 platform which tracks investments and performance. "They are not a large firm, but heavily drive their own tech strategy," says Alois Pirker, research director for Aite Group's wealth management practice.

Technology and support are almost as important as compensation to advisors, says Joanna Belbey, social media and compliance specialist for Actiance.



Scores may be improving, but technology is still the lowest-ranked category of services offered from independent broker/dealers to advisors. "What [advisors are] really saying they'd like to continue to see improvement in is effectiveness in helping them run their day-to-day business as an independent business owner," says Tom Daley, founder and CEO of online recruiting platform The Advisor Center.

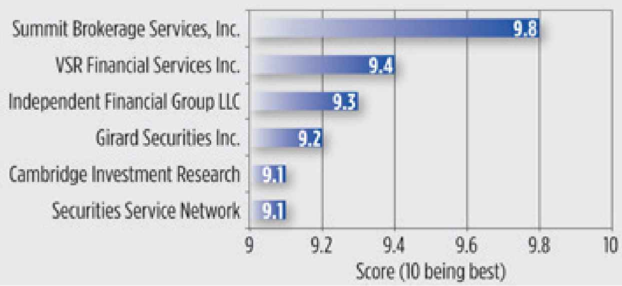
The support is really key, she says, especially in areas where most advisors are still relative novices, including social media. "We've moved from this 'you cannot use social media' to 'how do we use social media' and we're still evolving," Belbey says.

The overall average score for firms' support of social media has held steady over the past two years at 8.4, even as more advisors enter the space. "There's some degree of frustration on the progress," Belbey says.

CRM systems also seem to be a weak link. While some—Summit Brokerage Services (9.8), VSR Financial Services (9.4) and Independent Financial Group (9.3)—scored well, the average overall score was 8.4. Firms with the lowest scores, like Cetera (7.2) and Wells Fargo FiNet (7.0), offer proprietary systems rather than customizing custodian-provided platforms.

CRM Superstar

If technology is key to helping advisors' businesses run smoothly, then CRM systems are the nerve center of the operation. Here Summit and VSR scored top marks, with last year's highest ranked, Cambridge, slipping to fifth place.



Cetera's low score comes even as its SmartWorks Adviser system won Money Management Institute's 2012 Advisory Solutions Technology Innovation of the Year award. But as with many brokerage firms, Cetera has essentially been patched together through acquisitions of smaller b/d firms, which is a challenge for technology integration. "Often you have to take a step back and define a new one, as this was the case with Morgan Stanley Smith Barney," Pirker says.

Meanwhile, Wells Fargo's FiNet advisors use the same tech platform as the wirehouse side, Smith says. "It's probably not any worse than any other system offered by an IBD," he added. So why are the independent advisors at FiNet (relatively) dissatisfied? Pirker points out that wirehouse platforms don't have as many options as independent advisors want.

"If you are self-clearing you have to take technology matters in your own hands," Pirker says. LPL is an example of a firm that has neglected technology for too long, Pirker says. It scored a 7.2 overall, though LPL is making investments in improving their platforms.

Independent Financial Group (9.3)—scored well, the average overall score was 8.4

The majority of brokerages rely on technology from their clearing and custody firms, Daley says. Independent Financial Group, which scored a 9.4 for its overall technology and a 9.3 for its CRM system utilizes a suite of tools from Pershing, including the online trading platform NetEx 360. Advisors also have access to Pershing's NetExchange Client and Albridge Solutions systems.

Social Media Mavericks

With more advisors on social media, reps are banking on firms to support their endeavors. Here are the top-ranked firms in social media support.

"The institutional custody platforms, TD, Fidelity—they're really more on the forefront on the technology, more than the IBDs are," says consultant Ryan Shanks.

Some firms offer a mix. NFP Advisor Services Group (9.3) integrates different components from the clearing firms into their platform. "NFP is very much a National Financial shop, however, they take technology strategy very seriously and have built out the IndeSuite platform by leveraging technology components from their clearing firm," Pirker says.

But giving advisors the freedom to pick and choose the components that work best for their business, while an attractive recruiting message, can fall down in practice. "It becomes increasingly complex," Pirker says. "Unfortunately, many firms do not or cannot spend that extra effort and end up with a less-than-optimal infrastructure."

Pirker predicts independent brokerages will start to narrow the options they offer brokers, relying instead on tighter, more integrated systems with fewer add-ons or choices. "In general, we have seen a consolidation in the back-office and efficiency measures," Pirker says. "We're going to see a lot of changes going forward," he says.

***Articles taken from WealthManagement.com and REP. Magazine, March 2014 edition.*