



What Is A Registered Investment Advisor?

The financial services industry is a rapidly changing professional environment. As the needs and desires of consumers change, firms engaged in managing money are also evolving. A registered investment advisor (RIA) manages the assets of high net-worth individuals and institutional investors, and sits on the buy side of the investment field. He or she must register with the Securities and Exchange Commission (SEC) and any states in which he or she operates. Most RIAs are partnerships or corporations but individuals can also register as RIAs.

State of the Industry

The old model of a broker calling his wealthy clients with stock ideas is dying. In fact, there has been a mass exodus of client assets leaving this model. There are several reasons for this change including very high commission fees (the big profit vehicle of the wire house firms at the time), and often inadequate diversification. Many of these brokers were not CFAs or MBAs, just glorified salesmen whose knowledge base was due more to happenstance than true education.

Most Americans who participate in the stock market do so through mutual funds, and mutual fund assets have been growing steadily for more than 50 years. However, as the amount of money an individual or group has increases, the ability to achieve the best results with mutual funds diminishes. This is where RIAs are able to provide additional services that mutual funds can't, such as:

- Many clients are looking to have a true financial **"quarterback"**, a resource they can use for solid advice on their total financial picture. A good RIA will speak to the client in terms of his or her overall goals and objectives, and review these with the client at regular intervals.
- Clients increasingly want to have more options and easier access to the decision makers on their accounts. There are no direct access lines to the managers of a mutual fund account. There is no easy way to ask your mutual fund manager questions like, "Why did you choose to buy Wal-Mart?", or "What's a good estimate for what my capital gains could be this year?" Many clients do want this, either as part of their education or for their own piece of mind.
- Mutual fund assets are pooled funds, with no tax considerations to any one holder of mutual fund shares. For a wealthy investor, there are simply too many dollars at stake for taxes to not be taken into account.
- If the client is a large group and there are many interested parties (such as a non-profit endowment, pension plan or court-mandated trust), the extra service of having annual reports and other performance attribution can increase the attractiveness of an investment advisor in comparison to a mutual fund.

What Does an RIA Do?

Paid much like mutual fund managers, RIAs usually earn their revenue through a management fee comprised of a percentage of assets held for a client. Fees fluctuate, but the average is around 1%. Generally, the more assets a client has, the lower the fee he or she can negotiate - sometimes as little as 0.35%. This serves to align the best interests of the client with those of the RIA, as the advisor cannot make any more money on the account unless the client increases his or her asset base.

Registered investment advisors could be managing thousands of unique portfolios. This is because high-net-worth individuals and institutional investors are groups with unique needs. The advising firm will work with the clients to design a portfolio that suits the client's situation. It could be that the client has a large position in one particular stock with a very low cost basis; even though it represents a larger portion of its portfolio than would be ideal for diversification, the tax consequences are too severe to sell the position all at once. Or the client may be drawing down on an account using a combination of interest income and outflows and need the assistance of a professional to map the asset's life.

An RIA can create portfolios using individual stocks, bonds, ETF's, annuities and mutual funds. RIA firms can cover the spectrum as far as what goes into their clients' portfolios. They may use a mix of funds and individual issues or only funds as a way to streamline asset allocation and cut down on commission costs.

What Types of Professionals Work for RIAs?

As they operate in many similar ways, the same types of jobs that you would see associated with a mutual fund are also found in an RIA: research analysts, portfolio managers, traders, technical/operational staff and client service professionals. The research conducted for an RIA is also similar to what you would find at a mutual fund. The main responsibilities include monitoring existing holdings and searching for suitable candidates for purchase.

The RIA provides an additional responsibility through the holdings that are brought in by clients and requested not to be sold. Many times a portfolio must be constructed "around" a large position; in these cases the portfolio manager must devise ways to mitigate the risk inherent in owning so much of one company.

Most firms will handle order creation in-house, but will not actually execute the trades themselves. For this, they will have established brokerage relationships with firms that cater to large orders from institutional clients.

CPAs, attorneys and other financial professionals are hiring RIAs as they attempt to offer all the resources a wealthy client could want. Sometimes a separate fee is charged for one-time services like a financial plan from a CPA or the establishment of a family trust. Other times, it is all blended into the single management fee. Being able to offer more services under one umbrella opens the doors to the truly larger accounts: the accounts of \$10 million or more found among the ultra rich.