

RIA Systems and Operational Best Practices

February 2014

Why?

Recent advances in technology have made fast and sustainable growth a more manageable possibility for registered investment advisers (RIAs). Once affordable only to advisory firms with very large operating budgets, robust and fully integrated systems for managing client relationships and investments are now accessible to even the smallest advisers. Facing a vast selection of available systems of highly variable quality, many new advisers find themselves overwhelmed by the industry's breadth of choices. Based on thoughtful surveys, thorough research, and in-person visits to the offices of successful advisers, RIA in a Box offers the following guide as an introduction to the implementation of modern systems to support best practices in RIA operations management.

“Adaptability is about the powerful difference between adapting to cope and adapting to win.”
– Max McKeown

Advisers Seek Sustainable Growth

In a recent survey conducted by RIA in a Box, 89% of registered investment advisor (RIA) firms indicated growth as a priority for the coming year. Of those firms prioritizing growth, 73% intend to achieve growth primarily by adding new clients organically, with a further 3% hoping to grow primarily via acquisition of other firms.

Advisers intending to increase their client list either organically or via acquisition inevitably face operational challenges that threaten the adviser’s ability to serve his or her clients with the focus and personal touch that originally attracted the client to the adviser. Each week contains a limited number of working hours, and as a client base grows, these hours can be increasingly consumed by client support and general administrative duties. Unless the adviser changes the way in which he or she carries out these support duties, the adviser’s ability to provide top-notch client service may be threatened.

By implementing and integrating best-of-breed software solutions, an advisory firm can grow assets while maintaining or improving the quality of service delivered to each client.

Administrative Systems as a Platform for Growth

Advisory firms save time and improve their prospects for scalable growth by implementing software solutions to assist with investment performance reporting, financial planning, investment management, document management, and client information management. By implementing solutions to assist with these important activities, an advisory firm can reduce its time-intensive and error-prone dependence on Microsoft Excel spreadsheets and Outlook mailboxes, and benefit from the experience of thousands of other advisory firms whose use of these software solutions has honed the software’s features over time.

In addition to saving time and reducing errors, the implementation of cloud-based rather than local, server-based solutions allows advisers access to both their data and their full suite of advisory tools

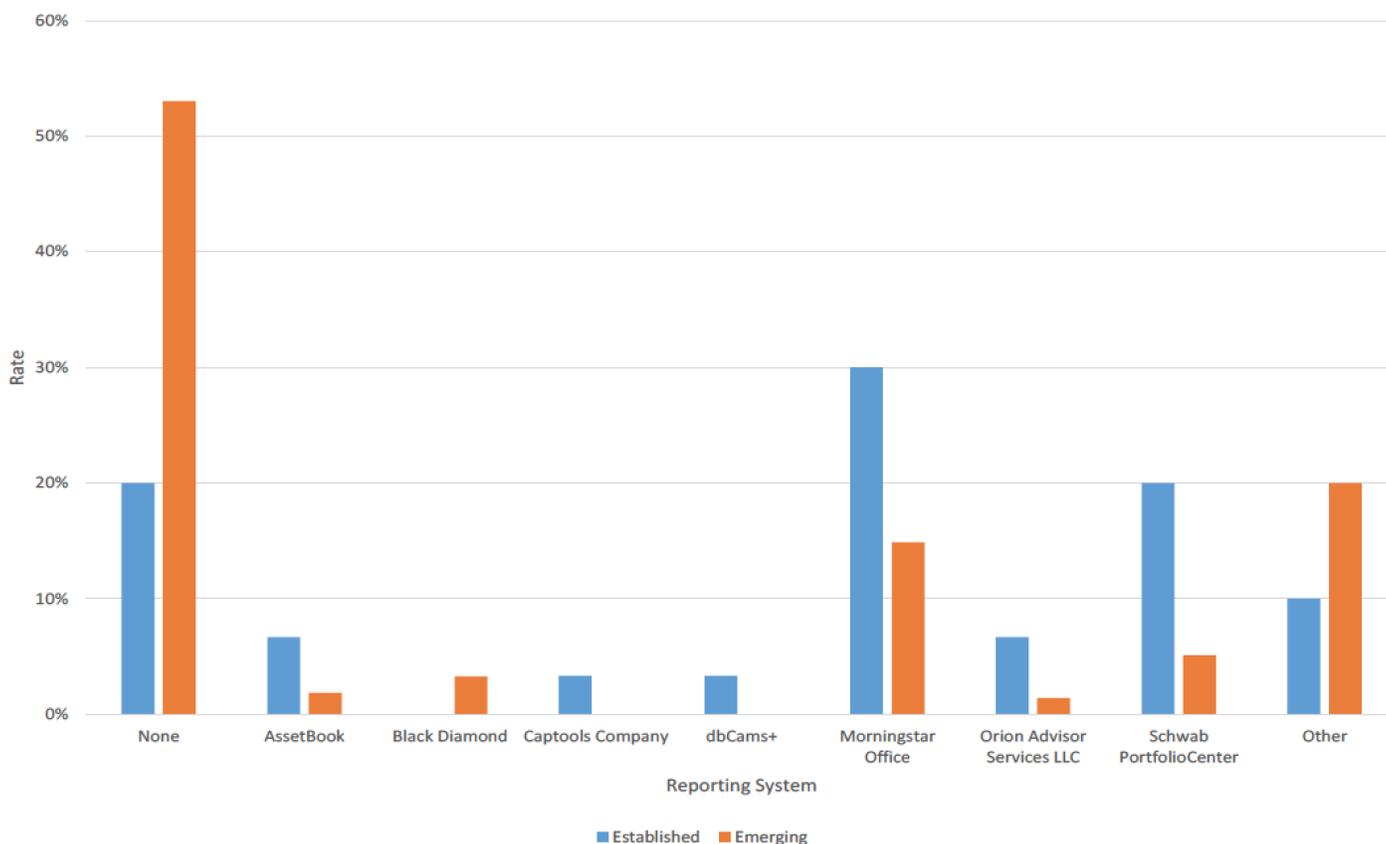


anywhere, anytime. In recent years, most cloud-based software services have matured to offer 99.9% uptime, exceptionally high levels of data security, and zero requirements for software development expertise on the part of the advisory firms that use them.

Cloud-Based Portfolio Management and Performance Reporting

Advisers have traditionally fit one of two categories on the matter of performance reporting systems: Large advisers have had access to expensive, server-based software packages capable of producing complex performance reports, while smaller advisers have made do with the account statements and basic reporting tools offered by their custodians as well as home-grown reporting systems built using Microsoft Excel. Custodian accounts and Excel tools are typically sufficient for extremely small advisers why advise assets of \$10 million or less, however even small advisers glean the benefits of reporting software once growth becomes a priority.

Reporting/Portfolio Management Implementation Rates
Established (>\$50m AUM) v. Emerging (<\$50m AUM) Firms





Traditional reporting software providers have geared their services towards the complex needs of very large wealth management offices and their sophisticated clients. These traditional solutions, however, have generally required a large up-front investment as well as technically savvy employees capable of managing both the software and the local servers on which the software runs. In recent years, cloud-based solutions such as AssetBook, Black Diamond, Orion Adviser Services, and Morningstar Office have offered advisers modern, professional-grade performance reporting without the set-up expenses and technical burden of incumbent reporting systems.

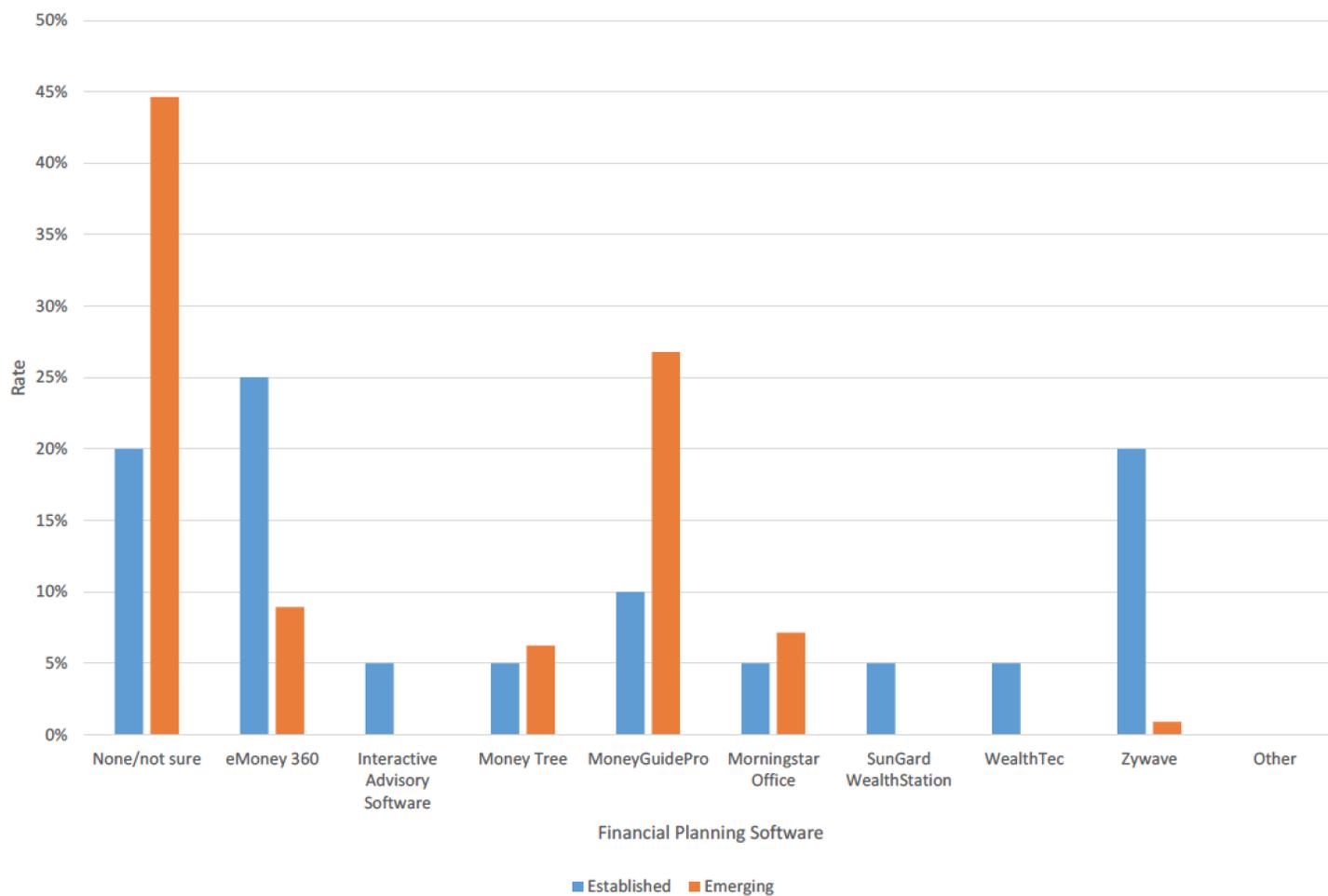
While not without flaws, modern reporting systems offer advisers a compelling upgrade over traditional solutions to the problem of presenting clients' investment performance clearly and accurately. Increased competition in the space has spurred consistent innovation on the part of reporting systems vendors, pushing them to offer increased value in the form of 3rd party integrations (such as integrations with custodian trading platforms) and features upgrades at reduced prices.

Automated Financial Planning

Advisers commonly recognize financial planning services as not only a sustainable standalone business but also an opportunity to establish asset management relationships with new and existing clients. In fact, while only 44% of advisers surveyed by RIA in a Box offered financial planning services in 2013, the advisers who placed in the top quintile of all advisers in terms of AUM growth during that same year offered financial planning services at a rate of over 55%.

Despite a financial planning service's commercial value, many advisers cite the time-consuming nature of manual plan construction as an operational burden. Fortunately, cloud-based offerings from providers such as eMoney Advisor, MoneyGuidePro and Money Tree Software help to automate the process of understanding a client's full financial situation and building the basis of a sound financial plan. Coupled with a well-integrated investment reporting package, modern financial planning software provides many advisers with the chance to present clients with a "complete personal balance sheet" that considers all characteristics of the client's financial life rather than a simple summary of changes to the values of the client's investment accounts.

Financial Planning Software Implementation Rates
 (Established (>\$50m AUM) v. Emerging Firms(<\$50m AUM))



Outsourced Portfolio Management

Emerging advisory firms who seek to grow their client rosters at a high rate often note the challenges associated with actively managing client portfolios on an in-house basis. Traditional “stock picking,” while a hallmark of many advisers’ identities and a rewarding practice for those advisers who do it well, is a practice that is difficult for many advisory firms to scale. Between the research activity required to supply clients with profitable trades and the extra time required to manage individual positions, the operational requirements of this strategy devour time that could be better spent on business development and client relationship management.



Irrespective of their bias towards active or passive portfolio management, many rapidly growing advisory firms across the country are increasingly employing the services of third party asset managers. While the practice of “outsourcing portfolio management” may seem anathema to many advisers, advisory firms who have delegated portfolio management to an outside adviser often report very high levels of satisfaction and appreciate the opportunity to present themselves to clients as resources and advice-givers rather than solely portfolio managers. Advisers who adopt this identity may also be able to better protect themselves from the client confidence-eroding effects of macro-economic downturns that can at times befall managers who present themselves to clients as “performance shops.” Global asset management companies such as Dimensional Fund Advisors and Vanguard Group have been particularly significant beneficiaries of this trend towards investment outsourcing, as the investment funds managed by these firms have experienced record inflows of assets over the past few years.

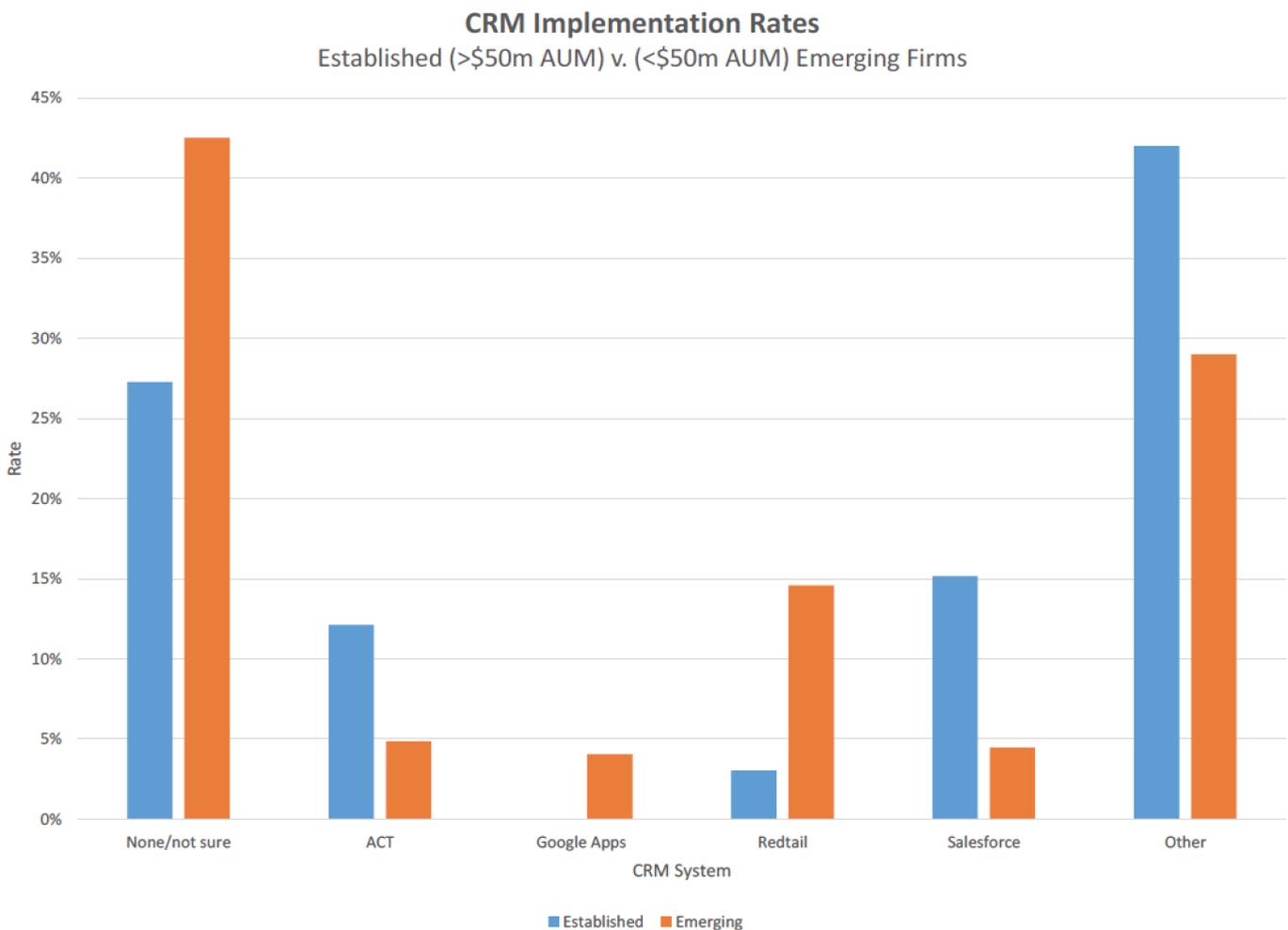
Electronic Document Management

Excessive documentation and storage requirements are a perennial scourge of the financial services industry, and the RIA industry is far from exempt from this burden. Advisers of all stripes report client document management as a challenge, with advisers operating firms with multiple offices reporting the greatest difficulty in document transmission and storage. Fortunately, there are now a number of reliable cloud-based document storage solutions available to RIA firms, with many of these solutions integrating seamlessly with an advisory firm’s customer relationship management (CRM) system. Specialized solutions such as Laser App help mitigate staff members’ manual entry of data across multiple systems, and can alleviate the paperwork burden often associated with tasks such as on-boarding new clients, processing new service agreements, and opening new accounts.

Broadly, the ubiquity of cloud-based servers has made secure and easily-accessible information storage an affordable option for even the smallest advisory firms. Importantly, advisers considering such solutions should ensure that any software under consideration is Write-Once-Read-Many (WORM) compliant. A WORM compliant storage tool is one in which information, once written, cannot be modified. Broadly, the ubiquity of cloud-based servers has made secure and easily-accessible information storage an affordable option for even the smallest advisory firms. Importantly, advisers considering such solutions should ensure that any software under consideration is Write-Once-Read-Many (WORM) compliant. A WORM compliant storage tool is one in which information, once written, cannot be modified.

CRM as a Hub for Systems Integration

Advisers who make the most out of the implementation of these software solutions do so through thoughtful integration. CRM systems – software systems that store and help organize information on each of an advisory firm’s clients – are ideally situated and, in some cases, purposely designed to support the integration of a variety of tools used for performance reporting, financial planning, investment management, and document management. The successful implementation of a CRM solution requires two efforts on the part of an ambitious advisory firm. First, the advisory firm must adopt a strong culture of CRM usage across all client interactions. A good CRM system can, for example, keep accurate records of client contact details, current service arrangements, client meetings, and even client hone conversations. Second, the adviser must make an up-front investment to employ the CRM system as the hub for integration of an advisory firm’s full suite of software solutions.



Small to mid-size advisory firms have traditionally been prohibited by cost from creating a CRM-centered operations management system. Recent advances in the technology underpinning advisers' software solutions have, however, reduced the costs of system acquisition, integration, and implementation. Broadly, a well-equipped and properly integrated CRM platform serves as the adviser's primary decision support system, reliably collecting and presenting client information in a way that helps the advisers make the best possible use of their time.

Thinking beyond Microsoft Outlook

While Microsoft Outlook serves as an excellent email management tool, it should not be mistaken for a professional CRM solution. Advisor-focused providers such as Redtail and Junxure remain the industry's most established providers of cloud-based financial advisor CRM services, and are continuously adding integrations with advisory-specific software solutions. Salesforce.com, a popular cloud-based CRM service, has been quietly increasing its presence in the investment advisory industry by providing a wide array of seamless integrations with third-party software solutions from a multitude of providers.

In all, the adoption of an enterprise CRM system is a challenging undertaking that inevitably requires a disciplined approach to implementation on the part of the adviser. Advisers who successfully navigate this implementation invariably report long-term cost savings, more scalable growth, and a substantial improvement in the quality of service provided to clients.

Other Helpful Technology Systems

- ◆ Voice over Internet Protocol (VoIP) phone systems: VoIP technology has improved substantially in recent years, and many advisory firms benefit from the cost savings, flexibility, and integration capabilities that these systems provide. For example, VoIP systems offer some advisory firms the ability to track the amount of time staff members spend speaking with each client over the phone. This information, coupled with data contained by their CRM system describing each client's profitability to the advisory firm, allows these advisers to identify clients who are being either under or over served.
- ◆ Accounting / Expense Management: QuickBooks by Intuit has emerged as the most popular accounting software from RIAs. This vendor's recent introduction of QuickBooks Online has made the majority of its accounting tools available in an affordable, cloud-based format. In conjunction with accounting software, many RIAs use payment management software such as Bill.com to automate the management of their accounts payable and receivable, and will typically integrate this tool with their accounting software.

- ◆ Website Hosting: A variety of vendors who cater to the RIA industry offer turn-key website design and hosting.
- ◆ Email Archiving: Vendors such as Smarsh specialize in offering compliant email archiving and surveillance solutions. The benefits of email archiving and surveillance are particularly pronounced when firms prepare for regulatory audits.
- ◆ Online Meeting Scheduling: Applications such as Doodle and Skedje.me allow advisers to schedule client meetings via the web. These solutions facilitate communication, eliminating the awkward email chains that are often associated with meeting setup.
- ◆ Employee Benefits / Payroll Administration: Advisory firms are increasingly utilizing professional employer organizations (PEOs) to deliver and administer benefits to staff. PEO services allow small advisory firms to offer employee benefits packages comparable to those packages offered by a large companies.

Strengthening the Long-Term Value of an Advisory Firm

Advisers who are successful in their efforts to grow their assets under management tend to view their advisory firms as assets themselves. From this perspective, the implementation and integration of modern software solutions provides a platform for sustainable, scalable growth, and cements the firm's value for both the adviser and his or her successors. In all, the thoughtful systemization of the firm's operational elements helps to preserve the value of the enterprise, and frees the adviser to exercise his or her personal value to the fullest: by providing the personal, dependable service to clients that made the adviser successful in the first place.

