



One Way or the Other

A look at pure and hybrid business models

By [Maya Ivanova](#)

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Right now, the topic of dually registered advisors is hotter than who was just voted off American Idol. You'll find it discussed at most advisor trade conferences and see much commentary on the subject, especially on how broker/dealer firms are trying to accommodate this new model. Different than "pure" or fully independent RIAs, dually registered or "hybrid" advisors are those who are registered as a stockbroker with the NASD and as a registered investment advisor with the SEC. Hybrid firms comprise a large segment of the advisory marketplace—about 20% of the total number of participants in the AdvisorBenchmarking survey, although the NASD estimates that 89% of RIAs are registered reps as well.

Hybrid advisors build their businesses differently than pure RIAs, and their divergent business models can result in some distinct differences. One of the most notable is that hybrid models have lower account minimums and a higher number of clients because they aren't as dependent fees for assets under management (AUM). Small clients can still be profitable for the hybrid advisor, as opposed to the pure advisor who would have to pass on these smaller clients who simply are not profitable with a primarily AUM-based model. That explains why hybrid advisors, by comparison, have a third more clients than pure RIAs—the average number of clients is 314 for pure RIA firms compared to 420 for hybrid practices.

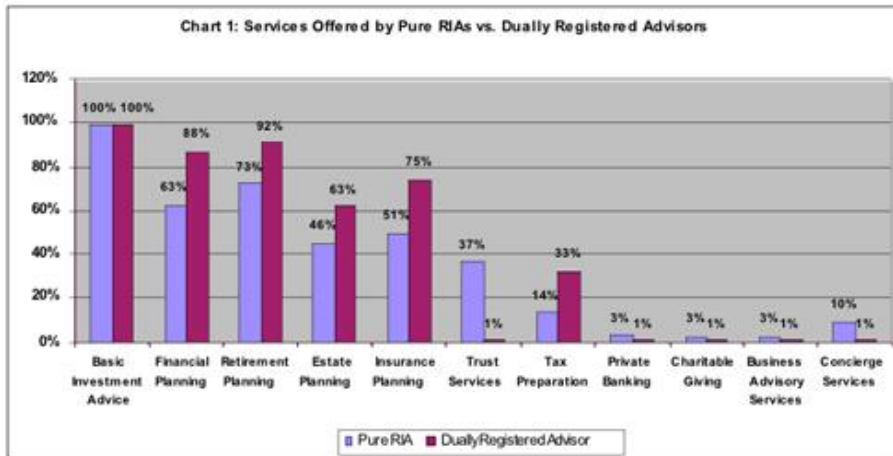
Another big differentiator is the firms' sources of revenue. While AUM fees are still the predominant revenue generator for hybrid firms, between 20% and 30% of revenue comes from commissions. Pure advisors employ multiple methods of compensation and are attempting to become less dependent on asset growth. Their revenue mix consists of 24% planning/consulting fees, 75% AUM fees and 1% commissions.

Another noticeable distinction between pure and hybrid advisors is how they spend their time. According to Patrick Collins from Greenspring Wealth Management in Towson, Maryland, "Time allocation is the major difference. Advisors affiliated with broker/dealers can spend more time on client service activities and less time on administrative tasks because they benefit from the support of the broker/dealer. In contrast, RIAs have to put more time into administrative work." That's supported by our data, as the average RIA firm spends 27% of their time with clients compared to hybrid advisors, who spend 38% of their time with clients.

	Pure RIA	Hybrid firms
Pricing Structure	Fee-based and/or Commission-based	Fee-based and/or Commission-based
Revenue per Professional	\$660,000	\$691,000
Account Minimum	\$408,000	\$75,000
Number of Clients	314	420
Operating Profit Margin	28%	29%
Number of Staff	5	5
Revenue per Client	\$4,600	\$5,000

What Services do They Offer?

Supported by their broker/dealer, hybrid firms are much more likely to be able to offer a larger variety of financial services that a pure RIA may not be able to provide. According to our data, the average RIA firm offers six or less services to its clients compared to eight services offered by hybrid firms. For example, 88% of hybrids offer financial planning services, compared to only 63% of pure RIAs. And 92% offer retirement planning compared to just 73% of pure RIAs. More than twice as many hybrid advisors also offer tax preparation services (33% vs. 14%). Conversely, pure RIAs seem to offer more advanced services such as trust services and concierge services. For example, pure RIAs spend more time on compliance issues since hybrids may have more support from their home offices.



And while there are some distinct differences between hybrid and pure advisors, there are also many similarities. For example, the staff size and compensation are all fairly similar across both groups.

It's more challenging business for those advisors who chose to take the "pure" RIA road and not to be supported by a broker/dealer—but at the same time those advisors have more freedom and independence.

From the clients' standpoint, pure RIAs are seen as providing more objective advice as there is no conflict of interest. Also, wealthier clients with more sophisticated needs most likely choose a pure RIA over a hybrid advisor to receive a higher touch level of service. The high-net-worth (HNW) market segment makes up 39% of the average firm's client base compared to just 12% of the average hybrid firm. According to Joshua Itzoe from Greenspring Wealth Management, "More sophisticated clients are leaving broker/dealers to work with independent advisors. (Pure) RIAs have the opportunity to be more selective when choosing clients and be more selective in the products and services they provide these clients."

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