

**THE GUIDE TO
STARTING A
REGISTERED
INVESTMENT
ADVISER FIRM**



AEWEALTH
MANAGEMENT

The number of Registered Investment Advisers (RIAs) is on the rise. Between 2012 and 2019, the number of RIAs in the U.S. grew from 10,511 to 12,993.¹

What's the draw? Working as an RIA can provide benefits for both advisors and their clients. It may offer the opportunity to choose from a broader range of products and services, allowing advisors to custom-fit financial plans. Operating as an RIA may also enable advisors to diversify revenues by offering both fee-based and commission-based services.

At AE Wealth Management, many of the advisors we work with have considered starting their own RIA firm but aren't sure what steps to take or how to begin the process. In this guide, you'll find the information you need and steps to take when starting an RIA.

¹ F. Norrestad. Statista. Nov. 16, 2020. "Number of Registered Investment Advisors (RIAs)* employed in the United States from 2012 to 2019." <https://www.statista.com/statistics/614815/number-of-ri-as-employed-usa/>. Accessed Nov. 16, 2020.

Understanding RIAs

The term “Registered Investment Adviser” may sound like a person, but it’s actually a firm. Employees who work for the firm and advise clients are called Investment Adviser Representatives, or IARs.

RIAs must register with the state(s) in which they operate, then with the SEC when they reach the required amount of AUM. RIAs are also responsible for supervising the IARs who provide investment advisory services to clients for a fee, generally referred to as an "assets under management fee." Additionally, investment advisory services are required to be provided following the fiduciary standard of care, which requires that the client's best interests are served ahead of those of the firm. It also requires the disclosure of any conflicts of interest that cannot be eliminated.

Is the time right for you to start your RIA?

Starting an RIA requires dedicated time and resources. Before making the leap, consider:

- Can I devote the time to complete necessary tasks to get started?
- Do I have the financial resources available to start the RIA?
- Do I have the right people or partners to make it a success?

If you answered yes to these questions, an RIA model might be right for you. Read on to discover the next steps to take as you chart a course to independence.

Your Guide to Starting an RIA

Congratulations! You've made the decision to start your own RIA. What do you do now?

In the following pages, we outline a step-by-step process to launching your RIA and building the financial advising practice you've always imagined.

Before You Begin

If you're currently registered with a broker-dealer and/or RIA, there are some things to consider before taking the first step to start your own firm. When you first started with them, you most likely had to disclose any outside business activities (OBAs) you were involved in and seek approval for those activities. If you wish to start a new firm, you must notify your existing broker-dealer and/or RIA of your intentions and obtain their approval beforehand.

If you fail to notify either your broker-dealer or RIA, you could be fired. If a broker-dealer fires you for neglecting to report an OBA, you will automatically be investigated by the Financial Industry Regulatory Authority (FINRA) and could be suspended for failing to disclose the information.

To avoid making a mistake that could lead to investigation and suspension, we suggest talking with an attorney or compliance consulting firm before taking any action to start your new firm. **Want a recommendation for an experienced professional who can guide you in this area? Contact our AE Wealth Management team at 866.363.9595 and we'll put you in touch.**

Setting Up Your Firm

Now that you've gotten squared away with your current broker-dealer or RIA, you're ready to get started! Let's walk through some of the decisions you'll need to make to launch your new firm.



Choose a name.

Your company name is the cornerstone on which everything else rests, including your registration with the SEC and the states in which you'll operate. When choosing your firm's name, it's good to take a long-term view since rebranding your firm later can be expensive and time-consuming.

Financial advisors face a common dilemma when naming their company: Should they use their own name or a "business" name? Some things to consider:

Using your name may be a good option if:	Using a business name may be a good option if:
You plan to operate as a sole proprietorship or as a one-advisor firm	You plan to add a team of advisors to your firm
You have a unique name that stands out	You want to build a company that stands on its own – even if you're no longer involved
You will be the face of the brand	Your target market is more interested in working with a "firm" than a "person"
You want to establish yourself as a thought leader	You have other interests for which you want to reserve your name or personal brand

As you're naming your business, it's important to research other firms that might exist with the same or similar name, particularly in the region(s) in which you intend to operate. Other things to check? Whether a website domain name that lines up with your firm name is available and if your name is available on social media platforms.

It's Your Business!

List potential names for your RIA:

STEP
#2

Tackle the legal stuff.

Choose your business structure

The next step in setting up your RIA is determining which business structure works best for your firm. RIAs commonly use one of three legal structures:

Sole Proprietorship. In a sole proprietorship, the enterprise is owned and run by one person. The owner is in complete control of the business, taking 100% of the profits and losses. Since a sole proprietorship doesn't require formal registration in the state in which it operates, it's the easiest type of business to start and run. The biggest disadvantage of this legal structure is that there is no legal distinction between the owner and the business entity; lawsuits against your business can affect your personal affairs and vice-versa.

Limited Liability Company. As its name implies, an LLC limits owners' liability to their business investment, providing personal protection if legal action is taken against the business. Owners of an LLC are referred to as "members" and are required to register the LLC in the state in which it operates. If business will be conducted in multiple states, a separate LLC registration must be completed in each state where business is done. Registration is completed by filing Articles of Organization and paying a registration fee.

An LLC should have an operating agreement defining its purpose and each member's role in the business. The operating agreement should also provide details about what happens if certain circumstances occur, such as a member leaving the company. Although you can prepare LLC documents yourself, an attorney can assist with designing an agreement and completing the required registrations.

It's Your Business!

What structure do you plan to use for your business? If it's a partnership, who will the partners be and how will the ownership be split?

Partnership. A partnership includes two or more owners who share responsibility for running the business and splitting profits and losses. Each state has different types of partnerships available. As in an LLC, a partnership can also provide personal protection from legal challenges against the business.

If you choose to set up a partnership, it's critical to consult an attorney to draft and review the partnership agreement. An attorney can help ensure the agreement complies with state laws and covers all interested parties fairly and accurately.

Obtain your EIN

After choosing a legal structure and completing the required registrations (if applicable), it's time to apply for an Employer Identification Number (EIN). This unique nine-digit number is assigned to your business by the IRS for tax identification purposes. Applying for an EIN is quick and easy; visit the website or give a quick call to receive an EIN within minutes.

CALL - 800.829.4933

VISIT - <https://www.irs.gov/businesses/small-businesses-self-employed/apply-for-an-employer-identification-number-ein-online>

Set up your banking accounts

Once you've established your legal identity and EIN, it's time to open bank accounts. At the very minimum, you'll want a business checking and savings account.

You might also consider opening a corporate credit card to cover larger expenses, such as insurance, office furniture and computer hardware.

Purchase insurance

While RIAs are not required to carry Errors & Omissions (E&O) insurance to register, it's a best practice to purchase it. Not only do most insurance carriers and broker-dealers require it for contracting, but E&O insurance can protect you against complaints and cover attorneys' fees resulting from litigation.

Other insurance to purchase includes renters' insurance, which would cover office losses after a catastrophe. You might also consider cyber-security insurance to protect against potential data breaches and stealing of clients' information.

We recommend consulting an attorney who specializes in working with business owners when setting up your business structure. He or she can walk you through important decisions and help you avoid crucial mistakes that could impact the future of your business. AE Wealth Management does not provide legal advice.

File Form ADV Parts 1 and 2

New RIAs are required to submit Form ADV Parts 1 and 2. Part 1 provides company information, including business practices, ownership and individuals' action on the advisor's behalf. Part 2 covers fees and compensation, investment strategies, brokerage practices and more. Form ADV can be completed online by visiting the Investment Adviser Registration Depository online at www.iard.com.

Complete SEC and state registrations

Your firm must register with the SEC if you start with or anticipate acquiring \$100 million AUM within the first 120 days of operation. If your AUM is less than \$100 million in the initial 120 days, your firm must register with the state where you are doing business. Registration forms are available at the SEC website at www.sec.gov.

Create advisory agreement, compliance policy, privacy policy and Code of Ethics

Once your registration is filed, you have 60 to 90 days to complete all other requirements. One critical task to complete during this time is your advisory agreement, which covers:

- Whether you will be billing clients in arrears or in advance
- Frequency of billing
- Your fee structure

You will also write your compliance policy, a master document outlining the compliance procedures your firm will follow. This policy will define what efforts your firm will make to ensure regulatory compliance, including the

frequency of those efforts and methods for completing documentation.

In addition to your compliance policy, you will also create a privacy policy to be provided to new clients. Your privacy policy guarantees that you will keep client information confidential except as stipulated within the document. (Stipulations may include sharing information with regulators resulting from a subpoena or another entity such as an insurance organization.)

Your Code of Ethics must reflect your commitment to put clients' interests ahead of the firm's interests and your personal interests at all times. Your Code of Ethics should also cover your methods for ensuring security for each client, from transaction reviews to how sensitive personal information is accessed.

AE Wealth Management and Advisors Excel work with advisors to obtain E&O insurance, complete Form ADV Parts 1 and 2 and register with the state(s) in which they work and the SEC. For more information, contact 866.363.9595.



Set yourself up for business.

The legal stuff is all squared away, so it's time to start working on where and how you'll do business.

Choose your space

Many factors go into choosing the right office space for your RIA. It can be a challenge to balance your immediate needs with planning for future growth. Here are some things to keep in mind as you search for the perfect location for your firm:

1. Accessibility. If your client base is largely composed of retirees and pre-retirees, accessibility to your office is important. Is there parking available close to the front door? Will clients have to navigate stairs or is an elevator provided? These are considerations when working with an older client population.

2. Location. If you're looking at non-freestanding office space, consider the rest of

the building or center. Is it well-maintained? What will your clients' impressions be when they visit your office for meetings?

3. Price. For many new financial advisors, the budget for office space doesn't go very far. Think through what's essential for the space to include (a place to work, a spot to meet with clients) versus what would be nice to have (reserved parking, additional offices for future team members). Also, consider any "hidden" costs that may be lurking in the price of your space, including parking, internet access or utilities.

4. Company brand. What do you want the "vibe" of your office space to be? Do you want something formal and stately, or would you rather your offices have a more home-like feel? Your office space should coordinate with the firm's brand and personality.

It's Your Business!

What features do you need in an office?



Select your systems.

As an RIA, your computer and phone will still be the primary tools used to run your practice. Reliable, up-to-date technology is crucial for providing first-class client service. If you plan to hire associate advisors or other team members, they will also need these tools to do their jobs well.

Outsourcing your technology setup to a knowledgeable IT firm can save you time by helping you identify what type of hardware you need and setting it up correctly. They can also make sure you have the infrastructure – such as modems, routers, phone lines and more – that you need to keep business running smoothly.

Software

Your software programs operate as the “brain” of your RIA. Technology is fundamental to running a successful and efficient business.

There are 3 main pillars to the typical Wealth Tech Stack of an RIA:

1. Portfolio Management System: The digital solution consolidating all of your client account data, model information, reporting tools, performance, billing functionality and sometimes additional features such as a client portal.

2. Financial Planning Software: A good system allows you to collect client data and project their future finances through various scenarios. The result is a comprehensive financial plan for the client without a ton of effort on behalf of the advisor.

3. CRM: “The Time Saver”: This is where important information about your clients is stored. Knowledge of those clients is essential

to everything you do as an advisor, and having that information stored in one place is key. A CRM can be used as a workflow and process system to create efficiencies and is also a great sales tool where you can track prospects and follow up with leads and referrals.

Other tech/systems to consider as a part of your business:

- Custodian(s)
- Trading/Portfolio Rebalancing System
- Performance reporting tools (If not included in your Portfolio Management System)
- Client portal (If not included in your Portfolio Management System)
- Risk tolerance/analysis software
- Fee billing
- Document Storage

Note: It isn't usually enough for a firm simply to have each of these pieces. It is essential that they work together to create a seamless and efficient system for your RIA.

Advisors Command is a proprietary CRM platform offered by Advisors Excel, powered by Salesforce. It allows users to see new business statuses and in-force updates and set up alerts on potential sales opportunities. Call **866.363.9595** for information and pricing.

Your hardware and software resource, Advisors Tech is the IT arm of Advisors Excel. They can help you with all aspects of your IT needs, including network security, hardware, backups and more. Contact them at 844.671.6071 or info@advisorstech.com to schedule your consultation.

It's Your Business!

What hardware do you need?

Which software programs will you need to run your core operations?

Select your vendors

As more advisors have transitioned to RIAs over the past 15 years, an entire industry has popped up to support them. As an RIA, you can choose from a wide selection of vendors to support each piece of your business.

The good news is that some wealth management firms bundle all of these tools

and offer them as a package on their platforms. Advisors who work with AE Wealth Management, for example, have access to industry-leading tools for financial planning, risk analysis and real-time reporting. They also have an entire team of knowledgeable professionals who handle back-office tasks – allowing you to focus on meeting with clients.

It's Your Business!

Who will you use to provide these services?

Custodian _____

Trading Program _____

Financial Planning Software _____

Performance Reporting _____

Client Portal _____

Risk Analysis _____

Fee Billing _____

Other _____

STEP
#5

Build the right team.

There are only so many hours in the day – hours that you, as the advisor, should be using to find clients and increase your AUM. As your firm grows, your to-do list grows along with it. At some point, you will want to hire team members to make sure your operation is running smoothly and allow you to focus on working with clients.

When building your team, the focus should be on the long term. Keeping great team members starts with finding and hiring the right people in the first place, even if the hiring process takes a bit more time and effort.

Finding the right person, however, starts with a bit of legwork before the hiring process begins. There are a few decisions to be made first.

1. What is the need? Identify where your business needs help. What role needs to be filled to truly make an impact on the growth of your firm? Make a list of the responsibilities and the tasks that would fall within this person's role.

2. What qualities does this person need? After identifying the role to be filled, think about the type of person who would best fill it. What specific skills or experience should they possess? What kind of personality would be ideal in this role?

3. What does the job entail? Construct a job description based on the answers above. Be sure to include all the details encompassed in the job, no matter how small.

What key roles should you consider adding to your team? Here are a few possibilities:

- **Operations Manager.** Keeps the office running. Oversees maintenance and creates a welcoming environment for employees and clients. Could also be responsible for maintaining licenses, insurance and other business-related paperwork.
- **Associate Financial Planner.** Licensed advisor who assists in creating financial plans and identifies the right products and solutions to fit a client's portfolio.
- **Registered Sales Assistant.** Assists with implementing new client accounts and ensuring funds are transferred correctly. Also helps with updating client accounts as needed.
- **Administrative Assistant.** Coordinates meeting schedules, replies to emails and helps advisors prepare for meetings.
- **Client Services Coordinator.** Oversees all client touches, ensuring that clients receive the answers they need and that all tasks are being handled efficiently and quickly.
- **Marketing Manager.** Supervises the firm's brand. Coordinates social media

posts, organizes events and creates marketing materials for the firm. Submits materials to compliance and implements changes when they're required.

- **Technology Manager.** Makes purchasing decisions about software and hardware and oversees implementation. Troubleshoots problems for employees when they arise.

Once you have completed these pieces, it's time to start looking for qualified candidates. But where should you start your search? Consider going outside the usual "classified" methods and rely instead on your relationships, both real and digital. Put the word out to your personal and professional networks that you're looking for a team member. If the position is entry-level, consider contacting a

local university for potential candidates. Utilize your social media platforms. The chances are good that you will end up hiring someone who has some connection to you or someone you know.

It's crucial to put just as much effort into retaining your key team members after the initial hire. Keep key team members happy by creating a culture of enthusiasm, opening lines of communication and developing a sense of purpose for not just the firm but every team member. No matter how large or small your staff, always demonstrate your appreciation for each team member's contribution to your firm's growth.

It's Your Business!

What roles do you need to fill soon?

What roles do you plan to add in the next 3 years?

**STEP
#6**

Establish your brand.

A unique brand identity allows you to stand out from other advisors and position yourself as the “go-to” person for financial advice. Your RIA’s brand acts as your company’s voice. Branding isn’t meant to target every potential client. Instead, your brand should target the right potential clients, the type of people you want to work within your practice.

Your brand should be reflected in every piece a client or prospect touches or views. These could include:

- Logo
- Letterhead, envelopes, business cards
- Website
- Brochures
- Presentation folders
- Event invitations
- Webinars or seminar slideshows
- Email signatures

All your materials should present your RIA in a polished light. Many of the tasks related to producing your marketing materials can be outsourced to professionals, who can create high-quality pieces while giving you more time to focus on meeting with clients.

Consider hiring a professional copywriter, photographer, web developer or graphic designer to help you create the right materials for your firm.

If your firm is dually licensed and also operates under the oversight of a broker-dealer, you’ll also want to submit your marketing materials to compliance for review and approval before use.

DID YOU KNOW?

AE Creative has helped hundreds of advisors create a unique, relevant and consistent brand. When you work with our in-house creative team, you receive the top-notch services of a high-end marketing agency.

You can get help with:

- Website design
 - Brochures
 - Event invitations
 - Consumer guides
 - Radio and TV scripts
- And more!

For more information about working with the AE Creative team, contact 866.363.9595.

It’s Your Business!

Which marketing materials will you need to get started as a firm?



Mind the money.

You'll need an accounting software program, such as QuickBooks, to keep track of the money flowing through your firm. The right money management tool allows you to easily pull reports, which is essential when regulators audit your firm.

Part of business ownership is knowing where your firm stands financially at all times. One best practice is to keep a current income statement, reflecting your income vs. expenses both on a monthly and yearly basis.

Your RIA could have income from fee-based services, financial planning fees, commissions or other sources of revenue. Expenses generally fall into two categories: variable and fixed. Variable expenses may include

commission expenses, while fixed expenses cover:

- Employee compensation (salaries, benefits, etc.)
- Interest and banking fees
- Technology
- Travel and entertainment
- Meetings and events
- Occupancy (rent, utilities)
- Legal expenses
- Regulatory fees
- Marketing

We also suggest hiring an experienced accountant or CPA to help you run income statements, make capital outlay decisions, and prepare and file quarterly and annual taxes.

It's Your Business!

Expected income sources

Expected categories of expenses

Sample Income Statement for an RIA

Company Name							
12 Month Pro-Forma Financial Statements							
	Beg Balance	T1	T2	T3	T4	T5	T6
Income Statement							
Revenues							
Fee-based income							
Financial planning fees							
Other revenue							
TOTAL REVENUES		*	*	*	*	*	*
Expenses							
Variable:							
Commission expenses		*	*	*	*	*	*
Total variable expenses		*	*	*	*	*	*
Fixed:							
Salaries							
Benefits							
Bonuses							
Total Compensation		*	*	*	*	*	*
Interest expense							
Technology							
Research							
Promotion							
Travel & entertainment							
Occupancy (rent & utilities)							
Legal expenses							
Regulatory fees							
Audit expense							
Consulting expenses							
Total fixed expenses		*	*	*	*	*	*
TOTAL EXPENSES		*	*	*	*	*	*
Income before income taxes		*	*	*	*	*	*
Income taxes							
Net income/(loss)		*	*	*	*	*	*
Balance Sheet							
Assets							
Cash		*	*	*	*	*	*
Accounts receivable		*	*	*	*	*	*
Prepaid expenses		*	*	*	*	*	*
Intercompany receivables		*	*	*	*	*	*
Securities owned		*	*	*	*	*	*
Fixed assets		*	*	*	*	*	*
Total assets	*	*	*	*	*	*	*

Would you like an Excel-based version of this Income Statement?
To request a copy for your use, call us at 866.363.9595.

For investment professional use only. Not for use with clients or the public.

Checklist For Establishing Your RIA

- Notify current broker-dealer and/or RIA of outside business activities (OBA)
- Choose a name for the firm
- Check website domain name availability
- Check social media profile availability
- Establish business structure
- Complete paperwork to set up LLC, S-Corp or C-Corp
- Obtain EIN
- Set up banking accounts
- Purchase insurance
- File Form ADV Parts 1 and 2
- Complete SEC registration
- Register with the state(s) of business
- Create compliance policies
 - Procedures for adhering to compliance requirements
 - Privacy policy
 - Code of ethics
 - Business continuity plan
- Locate office space
- Identify technology needs
 - Phone systems
 - Hardware (laptops, phones, copiers, etc.)
- Business management software programs (QuickBooks, CRM, etc.)
- Select your vendors
 - Custodian
 - Trading program
 - Financial planning
 - Performance reporting
 - Client portal
 - Risk analysis
 - Fee billing
- Build your team
 - Identify positions crucial to building growth
 - Recruit, interview and hire key employees
- Create your brand
 - Identify materials needed to market your firm (website, business cards, brochures, etc.)
- Partner with branding agency to produce professional marketing materials
- Implement money management systems
- Set up monthly, quarterly and yearly income reporting systems
- Hire an experienced accountant to assist with taxes and financial decisions for the firm

We're here to help.

Starting your own RIA may seem like an overwhelming task, but you don't have to do it alone. Advisors Excel and AE Wealth Management offer a wide range of services to get your practice up and running. We can help you implement a CRM program, establish your brand identity, navigate the legal requirements and much more.

Our Establishing Your RIA webinar walks you through the steps of establishing your RIA, from compliance to technology to partner selection. Visit <https://aewealthmanagement.com/ria/> to get access and let us help you check off all the steps on your way to starting your RIA!

Want to learn more about how we can help you start your RIA firm?

Schedule your strategy session today!

866.363.9595

www.aewealthmanagement.com/join

ADVISORS
EXCEL



www.aewealthmanagement.com/join

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