

## ***Should You Set Up Your Own RIA?***

**By David D. Holland, CFP, CPA/PFS, CRP, CLU, ChFC, RIS, CSC, CAS, CFS, MSFS**

**About the Author:** David D. Holland is an independent financial planner in Ormond Beach, Florida. In addition to his professional credentials, he is a licensed insurance agent and has operated an independent Registered Investment Adviser (RIA) firm for ten years. In 2006, David wrote \$18 million in fixed annuities and another \$12 million in RIA accounts. He achieved this success by working exclusively with retirees and by developing a comprehensive marketing and planning system to meet their needs. In 2007, David teamed up with industry veteran, Mike Mastowski, to establish Retiree Adviser Marketing Corporation (RAM) to give independent annuity agents the tools they need to take their businesses to the next level. For more information about RAM's annuity marketing tools (including RAM's proprietary seminar selling system and client acquisition system) or to arrange for an individual practice development consultation with David Holland, agents are invited to call **888-422-7007** or visit **[www.retireeadviser.com](http://www.retireeadviser.com)**.

### **Introduction**

A growing number of independent insurance agents and broker-dealer registered representatives are choosing to offer investment advisory services to their clients. To provide this service, an individual must be an investment adviser representative (IAR) of a Registered Investment Adviser (RIA) firm. After a financial professional has decided to be an independent IAR, he or she must next decide whether or not they want to setup their own RIA firm or become an IAR of an established RIA firm.

### **On the Fence**

There are few reasons not to become an IAR. Regulators are going to rightfully seek out and punish agents who provide unregistered investment advice and who make bad recommendations to clients. In increasing numbers, broker-dealers are going to rightfully rein in outside business activities of their registered representatives. Today's retirees and, of course, the upcoming wave of Baby Boomers are going to expect their financial adviser to guide them on their complete financial picture. Agents would be well-served to position themselves to continue to provide fixed index and other non-variable annuities, but they should also take deliberate steps to provide investment advice and to build integrated retirement plans to meet their clients' overall retirement planning needs.

### **Setup Your Own RIA**

Any agent can set up a separate corporation and then register that corporation with their state's division of securities or with the Securities and Exchange Commission (SEC). Prior to registering, the agent must complete the series 65, 66, and/or possibly another exam, depending on the requirements in the agent's state.

### **IAR of Independent RIA**

Instead of the setting up their own firm, many agents will be better served by becoming an IAR of an independent RIA firm.

## The RIA or IAR Choice

The following table provides the tasks and requirements to become either an RIA firm or to become an IAR. Agents choosing to set up their own RIA firm would be required to complete all items checked in the “RIA” column, while an agent choosing to become an IAR of an independent RIA firm (as opposed to establishing their own) would be required to complete those items checked in the column labeled “IAR.”

<b>Task/Requirement</b>	<b>RIA</b>	<b>IAR</b>
Establish Separate Corporation	✓	
Take Required Exam (e.g., Series 65)	✓	✓
Setup IARD Access with NASD Regulation	✓	
Prepare Form ADV Part 1A and/or Part 1B along with applicable Schedules	✓	
Prepare RIA Disclosure Brochure	✓	
Register Corporation as Investment Adviser Firm with State or SEC	✓	
Complete U-4 and Submit to IARD	✓	
Complete U-4 and Submit to RIA Firm for Processing		✓
Establish Written Policies and Procedures Manual	✓	
Prepare Investment Advisory Agreement with State Specific Language	✓	
Prepare Financial Planning Agreement with State Specific Language	✓	
Prepare Code of Ethics, Privacy Notice, and Policies for Particular Firm	✓	
Prepare and Test Disaster Recovery Plan	✓	
Find, Select, Evaluate, and Apply for E&O Coverage	✓	
Pay for E&O Coverage	✓	✓
File Annual Financial Report to State	✓	
Pay Annual Fees to State and Other Regulators	✓	✓
Maintain Minimum Working Capital Requirement for State	✓	
Prepare for Unannounced Audits by State or SEC	✓	
Determine and Maintain All Regulatory and Compliance Files	✓	
Maintain Client Files	✓	✓
Submit Monthly Reports and Requested Documents to RIA Firm		✓
Interview and Select Investment Custodian	✓	
Prepare Investment Risk Tolerance Questionnaire	✓	
Develop Investment Models to Match Levels of Investor Risk Tolerance	✓	
Select Investment Funds and Build Investment Models	✓	
Monitor Investment Models and Investment Funds; Replace as Appropriate	✓	
Develop Competitive Investment Advisory Fee Schedule	✓	
Calculate and Deduct Advisory Fees from Client Accounts	✓	
Identify Investment Custodian’s Applications for Each New Client	✓	
Prepare Investment Performance Reports or Pay Outside Firm to Do Same	✓	
Monitor and Recommend Changes to Client Accounts When Appropriate	✓	
Meet with Clients to Maintain Relationship and to Make Recommendations	✓	✓
Recruit, Hire, Develop, and Retain Investment Adviser Personnel	✓	
Stay Abreast of Evolving Regulatory Environment that Affects RIA Operation	✓	

## **Other Considerations**

As is obvious from the table, establishing an RIA firm is no small task. The upfront and ongoing time required is substantial. However, agents should not be discouraged from establishing their own RIA if they can afford the down time from their day-to-day activities and are prepared financially and mentally for the work required.

A key advantage to establishing an RIA firm is that the agent does not have to share investment advisory revenues with anyone else. If an agent chooses to be an IAR of someone else's RIA firm, he or she will receive part of the fees instead of all of them. To decide the best approach, an agent must weigh the opportunity of keeping more fees with the work required to do it all on his or her own.

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