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# THOUGHT LEADERSHIP

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To say the financial services industry has been a rollercoaster of change the past decade and a half is probably a gross understatement. To say that change is sneaking up on an entire group of financial advisors who may not have seen it coming and now face tough decisions about the future of their practices is probably *not* an understatement at all.

We've all watched it unfold. First it was the Patriot Act. Then, "Know Your Customer" came along. Now, the fiduciary rule and the Best Interest Contract/BICE loom on the horizon, a new presidential administration notwithstanding.

There's also the ever-changing and increasingly complex world of technology platforms for trading, performance reporting, accounting/billing, CRM, and financial planning. Even if you choose best-of-breed software products or platforms, getting them to work together is often quite difficult or even impossible.

This trend means that the average solo financial advisor (or small practice) that wants to operate responsibly and by the rules – as everyone should – is spending less time with clients and more time managing operations and compliance matters.

Add margin compression from reduced client fees and perpetual changes to the payout grid at your broker-dealer, and the picture may look even bleaker. To top it off, as your clients age, their needs can become more complex and require more of your attention.

Is the small/solo advisory practice going the way of the dinosaur? We believe we are not alone in answering that question with an unequivocal "Yes!" A decade and a half ago, everyone wanted to hang their own shingle or start their own RIA. Over the past few years, the costs of doing business as a small practice have increased while top-line revenues have struggled to gain ground. It doesn't take a PhD in economics to realize this trend is not sustainable for smaller practices.

So, what are the options for the sole practitioner in our industry? There appear to be three primary choices available:

# THE MORE THINGS CHANGE, THE MORE THEY DO

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➤ **OUTSOURCE MOST OF YOUR DAY-TO-DAY OPERATIONS.**

*Outsourcing has become more and more popular among small/sole practitioners.*

➤ **SELL YOUR PRACTICE AND GET OUT OF THE BUSINESS ENTIRELY.**

*While this may seem extreme, more and more advisors are “retiring” earlier than planned from the business due to the aforementioned stressors and the toll they can take on one’s professional and personal life.*

➤ **MERGE YOUR PRACTICE WITH A LARGER RIA.**

*Transitioning your practice from one advisory platform to another can be an efficient, well- thought-out project — or a complete disaster.*

So, what are the options for the sole practitioner in our industry? There appear to be three primary choices available:

**1) Outsource most of your day-to-day operations.** Outsourcing has become more and more popular among small/sole practitioners. Many large broker-dealers are even arranging vendors and service providers on behalf of smaller practices to ease the vetting process. Popular outsourcing solutions include TAMPs, telephone and scheduling services, licensed “virtual” assistants, third-party compliance officers, IT, and even financial planning support. However, this route can result in further reduction to margins and doesn’t always go as planned. When delegating means sacrificing quality and accuracy, this can cause legal and financial problems for your practice. Most importantly, it can harm your clients and your reputation. Choose wisely...very wisely.

**2) Sell your practice and get out of the business entirely.** While this may seem extreme, more and more advisors are “retiring” earlier than planned from the business due to the aforementioned stressors and the toll they can take on one’s professional and personal life. In this case, be wary of bargain hunters who only offer pennies on the dollar for your hard-earned practice. You may think it’s worth more than it is, but don’t settle for less than you should. Most practices today are selling for multiples of 1.5 times to 2.5 times trailing 12-month GDC or revenue. Selling is a huge decision and finding a buyer can be a complex and time-consuming process. More will be written about this topic in future posts.

**3) Merge your practice with a larger RIA.** If you want to stay in the business for more than seven or eight years, you still enjoy the client relationship aspect of your practice (isn’t that why most of us got into the business to begin with?), and you are willing to sacrifice some control for peace of mind and the freedom to grow your practice again, this may be the right option for you. Shop carefully. Choose wisely. Interview the interviewer, so to speak, and do your due diligence. This is not a choice you want to regret soon after taking the plunge. However, it just may be the best thing you can do for you and your clients.

### INSIGHT:

#### HERE’S THE KICKER

Within the next several years, nearly every sole practitioner and smaller practice will come to the realization they can’t survive on their own. The number of financial advisors trying to jam through the keyhole at that point may result in hasty decisions and poor choices.

**The key: start the process now!** Determine which one of the three scenarios presented is your best choice based on where you are right now and how you feel about your business...or the industry in general. Then, get started down the path of exploring your best options to make a brighter future and fewer headaches a reality.

Proactively choosing the future *you* want for you and your clients may result in a better outcome than the one that is being chosen *for* you by osmosis.

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- A truly seamless technology platform to manage your practice and serve your clients
- Access to institutional pricing on industry-leading custodial platforms
- Single-click trading and rebalancing
- Simple, reliable reporting and tracking for clients' investment and financial planning needs
- Over 40 years of combined in-house portfolio strategy experience and guidance
- A family-oriented, warm, professional culture where you and your clients can thrive

HELLO FUTURE.  
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The logo for Ashton Thomas Private Wealth features a stylized blue mountain range icon to the left of the company name. The name "ASHTON THOMAS" is written in a large, bold, blue serif font, with "PRIVATE WEALTH" in a smaller, blue sans-serif font underneath.

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