

THE VALUE OF FEE-BASED ACCOUNTS

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Why consider fees?

Position your business for the long-term

Now, more than ever, an overwhelming amount of financial information is available to your clients, and they are looking for someone to guide them through their options. This is a great time to introduce fee-based accounts to some of your long-time commission-based clients. Converting clients to fee-based accounts gives them an opportunity to have a portfolio that can respond better to changes in today's dynamic market environment. Using a managed money approach also helps align your interests with theirs and is a way to enhance your client relationships and the value of your business.

Create dynamic client portfolios

Fee-based accounts allow you to create dynamic, flexible, and market responsive portfolios that are closely based on individual client objectives. Impossible in a commission-based relationship, advisor investment discretion makes flexible, agile, and dynamic investment management possible and elevates your role in your clients' investment decisions. Since there

is no up-front load, clients appreciate that their portfolio can be adjusted quickly and economically to respond to changing market conditions. Managed money programs also allow advisors to offer higher level investment options as they gain access to "best of breed" investments and don't have to rely on a single fund family. Furthermore, the investment management companies have teams of professionals that are dedicated to monitoring portfolios and recommending adjustments as needed. Clients will feel confident knowing their portfolio is being managed and monitored on a regular basis by a team that has a sophisticated understanding of the markets.

Develop deeper relationships

Converting directly held assets to fee-based accounts provides a deeper and more involved client experience, leading to greater retention and better long-term results. Clients have the opportunity to better experience your professional and quality guidance as you work directly with them to create a disciplined and dynamic investment approach. They will appreciate the fact that fees are discussed and developed up front. Since your fee is based on their assets, your interests are aligned – if the client's assets go up, your compensation goes up; if their assets go down, your compensation goes down. In other words, when the client does well, you do well.

Ongoing revenue stream

Fee-based pricing creates a consistent recurring revenue stream that can provide you with a more stable income than commission-based revenue. Fee compensation has proved to be more reliable in times of market turmoil. If you are compensated with commission, you only get paid when you sell a product. While many fear a drop in short-term income upon initially moving to a fee plus commission business, integration of a solid plan can help you overcome that hurdle and build a fee-based business that will maintain your current business levels and ultimately deliver far more revenue than a commission only practice.

It is a win-win for you and your client

Higher client satisfaction

Adding fee accounts to your business provides the opportunity to establish deeper client relationships. Positioning yourself as a trusted advisor who offers objective and comprehensive advice creates long lasting relationships with your clients. Providing a transparent fee schedule and informing clients that your revenue is determined by the growth or decline of their assets will help them to understand how your new way of doing business puts both of you on the same side of the table. The value you deliver as a quality financial advisor and the high-end consultative services that you offer, such as counseling a client responsible for settling the estate of a loved one or creating an education funding strategy for their family, are services that can often best be delivered under a fee engagement. The fee engagement may be based on assets under management or a flat fee.

Increase the value of your practice

Industry data demonstrates that fee-based businesses are more valuable to acquire than commission-based businesses. The recurring revenue created from a fee engagement with a client is worth dramatically more to a buyer than a commission only relationship. Learning how to service fee-based clients can begin at any time, and we highly recommend it for those nearing retirement. A fee-based business is also beneficial to the process of succession and business continuity, as it can be easily adopted or replicated by professionals other than yourself. A consistent client experience and outsourced workflow allows you to slow down without retirement and transition control to your successors.

Flexibility and discretion

With increasing regulatory concerns about product compensation and the burdens those create, many advisors feel that compliance requirements and risk management can be more easily satisfied in a fee-based environment. You are free to create your

own Registered Investment Adviser (RIA) or outsource to a corporate RIA such as Cambridge Investment Research Advisors, Inc. (CIRA), which further removes compliance workload from your desk. Clients appreciate the flexibility to make withdrawals, deposits, rebalances, or other changes to an account without commissions. You alone control the decision as to which options and platforms are best suited to your clients' needs and coincide with your own investment and business philosophy.

How to Build Fees into your Practice

"We believe that combining fee and commission business is often the best model for our advisors and that long-term clients are often best served in fee-based programs." – Eric Schwartz, Cambridge's Founder, CEO, and Chairman

Increase revenue and client satisfaction

Quality advisors who build a fee-based business have an opportunity to improve both the client experience and outcome, as well as stabilize and improve practice revenue. Clients can receive enhanced service and a clearer understanding of the advisory relationship, and regulators also seem to prefer fees. Review the following guidelines on how you can begin to service fee-based clients and increase the value of your practice.

Prepare mentally

A critical step in adding fee accounts to your client services is to mentally redefine who you are and your value proposition to your clients. Take into consideration your years of experience, depth of knowledge, and understanding of the business. When you become a fee-based advisor, you will be selling yourself and the value that you provide to your clients. If you can't convince yourself that you are a valuable resource, you won't be able to convince them either.

Develop a business model

Determine if you want to create your own Registered Investment Adviser (RIA) or use Cambridge as your RIA. In either situation, you will need to decide if you want to be a money manager or a client-centered, trusted advisor and leave the money management to third party experts. Outsourcing to money managers allows you to take advantage of their experience, discipline, and commitment, while freeing yourself to meet the more complex needs of your clients. Think about what activities you like to do best, what can be delegated, and what can be done efficiently by a third party.

Determine your fee schedule

One of the most difficult decisions in adding fee-based accounts is deciding how to price your services. When determining your fees, take into account your knowledge and years of experience and estimate the number of hours needed to adequately provide each service. The Cambridge Client Solutions Team can consult with you regarding fee schedule options and give you a good picture of industry norms.

Identify your ideal client

Review your current book of business and determine the clients who are best suited to a new fee relationship. Your ideal client is anyone who wants assistance designing and managing an investment strategy. Segment your current client base into two main groups. The first group is clients who have been with you for a significant amount of time and recognize the value and sound advice that you provide. They typically agree with most of your recommendations, so it should be fairly easy to persuade them that your new way of doing business will ultimately benefit them. Your more critical and analytical clients may need to be convinced of the benefits of fee-based accounts and will want to see data to validate your recommendations. Be prepared to provide all with a cost analysis and client friendly information about the platforms that you plan to utilize.

Create a plan

Write down your short- and long-term business goals and create a system to measure your progress against them. Identify how quickly you want to incorporate servicing fee-based clients and how many your office can realistically handle on a monthly basis. Prepare your office staff to help with this process so that you will have time to focus on talking to current and prospective clients. Take into account how this business change will affect both your short- and long-term income.

Establish a client communication process

Outline on a calendar when you will be meeting with each group of clients or any special events that you may hold to discuss the value of fee-based accounts. Track when and how (email, phone, face-to-face, etc.) you contacted each client and continue this process until you are satisfied with the status of their account. Resist the urge to talk to your largest clients first. It will be to your benefit to practice your script with your smaller clients in order to be more prepared and confident when you approach your larger clients.

Expand your client services

Begin scheduling face-to-face client meetings. Write out what information you want to provide them, including your value statement, goals, and reasons to convert to a fee-based business. Have marketing materials created and readily available in your office before you begin contacting clients. Complete as much of the required client paperwork as possible before each face-to-face meeting to facilitate a seamless opening of a new fee account. As you meet with more clients, you will develop a process that works best for you.

Choose the right partner

Widely recognized across the industry as the pioneer of the hybrid approach, Cambridge has clearly earned its reputation as THE FEE EXPERTS^{®1}. Today, many experts agree that fee business is an important approach to serving clients, and it may one day dominate the industry. The hybrid market has emerged as a major trend and leading independent broker-dealer firms are quick to announce their support of both platforms as more and more rep-advisors seek opportunities to serve their clients with fee and commission practices. Cambridge believes in the entrepreneurial spirit and allows you to run your business in a manner that makes the most sense for you and your clients.

Dan Sullivan, Executive Vice President and Member, Board of Directors

Dan Sullivan joined Cambridge in 2006, bringing with him over 30 years of experience in the financial services industry serving clients as a financial advisor. In his role at Cambridge as Executive Vice President, Sullivan is particularly focused on leading strategic initiatives that support advisors in efficiently growing their independent businesses. He has been instrumental in providing guidance and oversight for many of Cambridge's strategic offerings, including the Cambridge Retirement Center along with Client Solutions, Wealth Strategies, and Practice Management. Sullivan also serves on the Cambridge Board of Directors.

Colleen Bell, Member, Senior Council and First Vice President, Fiduciary Services

Colleen Bell joined Cambridge in 2006 following her experience as a securities examiner for the Securities and Exchange Commission. Bell is responsible for leading Cambridge's Fiduciary Services department, which focuses on providing service support for Cambridge's fee-based programs, retirement plan platforms, and compliance solutions. She dedicates her time to developing and executing innovative strategies that assist Cambridge's retirement and wealth advisors in achieving their business objectives. Additionally,

she focuses on expanding Cambridge's Retirement Center, WealthPort®, and related consulting, education, and technology resources for Cambridge advisors. Bell earned a bachelor's degree in business from the University of Illinois at Urbana-Champaign and holds FINRA Series 7, 24, and 66 licenses, along with the AIF® (Accredited Investment Fiduciary®) designation.

About Cambridge

Cambridge Investment Research, Inc. (Cambridge), member FINRA/SIPC, is among the largest privately owned independent broker-dealers in the country. Over 30 years ago*, the firm led the industry with the development of hybrid service models to support freedom of choice as well as open architecture fee and commission platforms. Today Cambridge supports approximately 2,700 independent financial professionals nationwide who serve their clients as registered representatives and investment adviser representatives, choosing to use either Cambridge's firm Registered Investment Advisor or their own. www.joincambridge.com.

Selective advisors choose Cambridge. Contact us at (TheFeeExperts@cir2.com) at 877-688-2369.

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¹THE FEE EXPERTS® is a registered trade mark of Cambridge Investment Research, Inc. for its investment advisory service for investment managers.

* Cambridge and its predecessor broker-dealer

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