FOCUS ON BANKING, FINANCE & INVESTMENTS

Hybrid advisers step up to satisfy complex needs of clients

By CONOR DELANEY
Special for Lehigh Valley Business

When thinking of the word hybrid, combining two elements together probably comes to mind. People tend to imagine hybrid cars, golf clubs and even smartphones.

Essentially, when hearing the word hybrid, people think of getting the best of both worlds.

Conor Delaney

However, while speaking about the advisory practice in the financial industry, when combined with the term registered investment adviser, the word hybrid remains confusing to many people.

In simple terms, a hybrid RIA is registered as both an RIA and a broker/dealer, allowing advisers to operate both a fee- and commission-based practice. In this ever-changing industry, clients' needs are becoming more and more high level and complex.

With particularly high net worth clients, a hybrid adviser can offer a broad range of advice-driven strategies and solutions while providing comprehensive guidance on all aspects of a client's financial position.

THREE MODELS

Understanding how advisers operate under the three business models may help when trying to better understand the term hybrid RIA.

- **Traditional broker-dealer representative:** In this model, advisers are either affiliated with an independent broker-dealer or employed directly by a wirehouse.

As registered representatives of their firm, advisers process all transactional and commissionable business through the broker-dealer. A broker-dealer firm has a corporate RIA as part of this model.

- **Fee-only RIA:** This model is where advisers form their own independent RIA through their state or with the Securities and Exchange Commission.

Unlike the traditional broker-dealer representative model, advisers under the fee-only RIA model are not registered representatives of a broker-dealer and, therefore, cannot sell commission-based products.

- **Hybrid RIA:** This is where both previous models combine together.

A hybrid RIA structure runs just like the fee-only RIA. However, advisers now also can sell commission-based products because they are registered representatives of a broker-dealer, as well.

HYBRID OR DUAL?

With the hybrid RIA model continuing to grow, it's important to know the differences between all models.

More confusion arises when speaking about dual advisers versus hybrid advisers.

The terms dual and hybrid often are used interchangeably, but in this industry there are several differences that advisers need to know.

Especially when discussing dual advisers and hybrid advisers, even veterans in the field can get confused about the differences.

> Advisers in the hybrid RIA model can implement all aspects of a client's financial plan on one platform.

TECHNICAL DIFFERENCE

Although there are key distinctions between hybrid advisers and dually registered advisers, there continues to be confusion about the true definition of a hybrid RIA.

Many firms say they run under a hybrid RIA model when technically they do not.

The main difference is that a dually registered adviser refers to an adviser affiliated with a broker-dealer that leverages the broker-dealer's corporate RIA.

Whereas a hybrid adviser refers to an adviser affiliated with a broker-dealer but using his own RIA registered with the state or SEC.

WIDER RANGE OF OPTIONS

A hybrid RIA is not only an advantage for advisers, it also can help clients. That's because advisers in the hybrid RIA model can implement all aspects of a client's financial plan on one platform.

This means they can implement any brokerage- and insurance-based products along with asset management without involving separate steps.

In other words, the client does not have to seek out a separate insurance broker to cover risk management and seek out a separate wealth manager to handle asset management.

In many cases, hybrid RIAs also offer the adviser ways to deliver a broader set of solutions and often give clients access to more products.

PICKING THE RIGHT ADVISER

Overall, each business model can be conducive to what services each firm tries to provide.

A hybrid RIA simply combines a traditional broker-dealer representative with a fee-only RIA.

Being well informed about all of the advantages and benefits a hybrid RIA can offer to clients is important when trying to choose an adviser.

Conor Delaney is co-founder and CEO of The Good Life Companies of Wyomissing, which include Good Life Financial Advisors, the umbrella company for independent advisers throughout the nation; Good Life Advisors, the adviser-owned RIA; Good Life Advisor Systems, a turnkey solution to support individual adviser's practices; and Good Life Insurance Associates. He can be reached at 610-898-6927 or conor.delaney@goodlifefa.com.

WEALTH

continued from page 9

"They're giving them the money now instead of waiting," he said.

GENERATIONAL DIVIDE

As money is being transferred to the next generation, financial advisers are finding that Generation X members and baby boomers have a very different mindset when it comes to saving for retirement.

Moyer said the traditional retirement plan was a three-legged approach that included a pension, Social Security and small amount of savings.

While most baby boomers have come to realize that they won't have a pension, they still expect to receive Social Security. Whereas, most Gen-Xers believe there isn't going to be Social Security by the time they retire.

BOOMERS BEWARE

Joyce said Gen-Xers tend to be more conservative.

"They came of age after 9/11. They saw the worst financial crises since the Great Depression," he said. "They're interested in savings."

Joyce and Moyer cautioned baby boomers to first ensure they have enough savings to cover their cost of living before even considering a financial gift to their heirs.

Moyer, who works mostly with younger baby boomers, said that many of his clients are not yet financially secure enough to start giving their money away.

"Many of our clients want to help out their children and grandchildren," Joyce said. "I applaud that. They want to see the fruits of it while they're still alive, but they need to make sure they don't overdo it."

LIVE LONGER, PAY MORE

Today's baby boomers are facing interesting financial challenges.

First, people are living longer. According to the Centers for Disease Control, boomers born in 1960 had a life expectancy of 69.7 years at birth; whereas, someone born in 1900 had a life expectancy of 47.3 years at birth.

These added years mean that baby boomers need to plan for more living expenses and realize there's a higher probability of expensive long-term health care costs.

Additional financial challenges include the increase of second marriages and the existing low interest-rate environment.