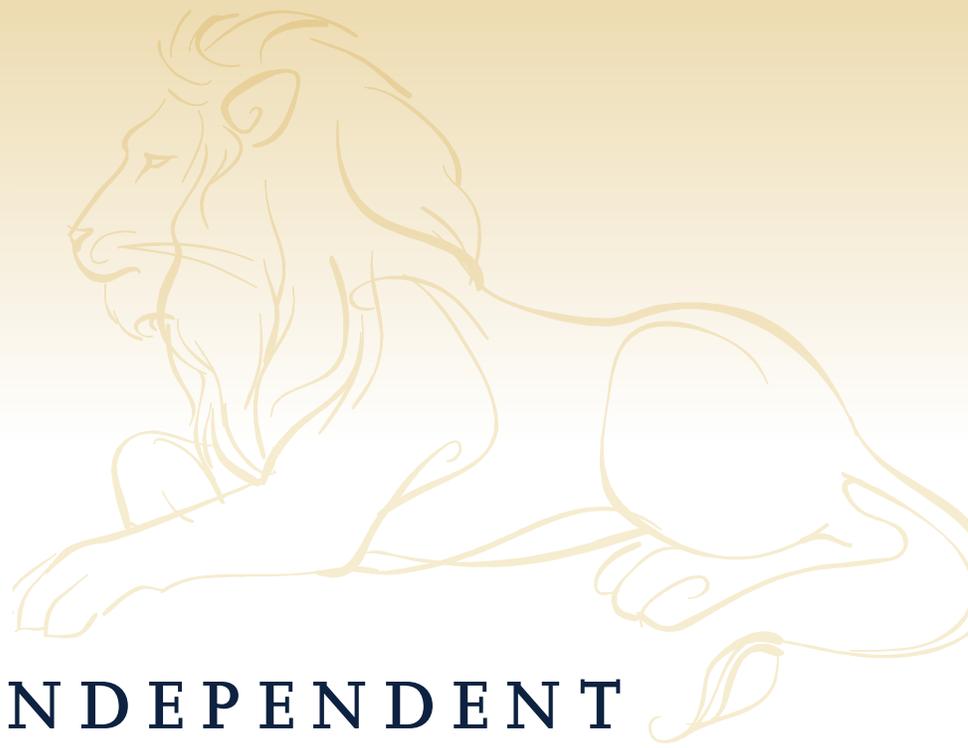


GOING

INDEPENDENT



Are you ready to own your own business?



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Thank you for taking the time to learn more about Going Independent and evaluate whether or not it is right for you. If you are reading this book, you are probably considering making a change in your life. This will require you to closely analyze your current business and also your future potential. Going Independent is designed for educational purposes to assist you in making an informed decision. Along the way, we will provide information about the experiences of Cantella financial advisors to provide a better understanding of how things work in our current environment. There are three primary goals that we hope this reading will help you achieve.

- 1. We hope it helps you look deep inside who you are and where you excel to determine the best business model for you, your loved ones, and your clients.**
- 2. For those who are already independent or deciding to Go Independent for the first time, we want to provide guidance on how to design a business built for success with the right partner(s).**
- 3. If you decide to take make a change in your career path, to learn from the prior experiences of others and transfer your book in an efficient, productive, and timely manner.**

Having worked as a former wirehouse producer with E.F. Hutton, an independent producer, and in senior management of a broker/dealer, I have firsthand experience with the pros and cons of various aspects of the investment industry. We hope that sharing the experiences of others who went through this process helps you make a logical career and lifestyle decision. Numerous advisors, along with the transition team, traders, compliance and operations staff at Cantella, provided their input to complete this guide. We thank you in advance for investing your time to read Going Independent.

Sincerely,



Jim Freeman

THANK YOU FOR TAKING THE TIME TO LEARN MORE ABOUT GOING INDEPENDENT.



GOING INDEPENDENT

Imagine owning your own business with the freedom to manage it your way. When the story of your career is written, it is your story, not that of an employee. No longer will your Twitter posts, LinkedIn profiles and Facebook commentary be limited to canned content written by someone else. Your creativity and value can be communicated to the public in your unique way.

Independence means choice. You are the boss. You say goodbye to useless meetings discussing products you have no interest in selling to your clients. No one tells you when to show up to work, what to wear, or when to leave. As an independent representative, you make the decisions based upon what you think is best for your clients, and grow your business the way you choose. It is exciting, exhilarating, and yes, intimidating. It is a choice more and more financial advisors, especially wirehouse and regional producers, are making every day.

What does it take to become a successful independent financial advisor? You need to make the leap from working *in* a business to working *on* a business. You should have a minimum of two years experience in the securities industry, preferably much more, and a solid base of assets under management. If you lack adequate financial services experience and still feel that the independent environment is best for you, consider joining another independent advisor who can serve as a mentor, while providing the freedom you desire. The junior partner that eventually buys a mentor's book can be a great career path. An increasing number of independent business owners prefer local transfer of ownership in their exit strategy. Having a junior partner is a logical step towards achieving a retirement path where everyone wins. With more financial advisors reaching retirement age and fewer younger advisors choosing a career path in financial services, there is an incredible opportunity that benefits all by making a junior partner a key component of a succession plan.

What does it mean to be Independent? As a Cantella branch owner, it means you have no pressure to solicit proprietary products. It means you can choose from about 20,000 mutual funds, dozens of insurance companies, or multiple wrap platforms for fee-based accounts. You can manage assets as the portfolio manager, in conjunction with your clients, or utilize industry-leading wrap programs like SEI, Lockwood Financial Services, Envestnet, Morningstar, Brinker, Raymond James and AssetMark, which screen through the numerous separate account managers to find the best ones for your clients. To help make an objective buy or sell decision on individual equities, you have access to the research departments of multiple firms. Cantella representatives can carry accounts at three different NYSE member firms: National Financial Services, LLC, a Fidelity Investments Company®, Pershing LLC, a subsidiary of The Bank of New York Mellon, and Raymond James, and utilize the numerous

products and services available on these platforms. As an independent, you choose what is best for your customer, not for your branch manager or firm. As we all look back on our careers, some of us may question why some products were so aggressively hyped by management. Was it the investment merits of the product, or perhaps the financial incentive to various tiers of management that motivated them to push us to sell in-house funds and products? At Cantella, our primary directive is, "Please do what is best for your customer."

It was risky to leave the comforts of a wirehouse or regional firm to become Independent when the concept was first introduced over thirty years ago. You were at a competitive disadvantage because you lacked comparable products and services. Improved clearing platforms, technological advances, access to innovative products, and better broker/dealers have significantly changed the business atmosphere to benefit independent representatives. Most of the services offered by wirehouses are available to independents. Typically, the selection is much greater. While leaving a wirehouse still carries risk, you now have more tools at your disposal to help you succeed. Before a wealth management product becomes available in a wirehouse, it is utilized sometimes for years in the independent setting. The natural forces of competition are making independent firms better. The market collapse of 2008, combined with overexposure to ill chosen private placements, eliminated many of the weaker firms. You now have very competitive broker/dealers that provide excellent support, which is welcome news for those who choose to start their own business.

The move to independence is not for everyone. If you require a manager looking over your shoulder to ensure you make the necessary outgoing phone calls, independence is probably not right for you. To be successful, you must combine self-motivation with entrepreneurial skills.

At Cantella & Co., Inc., we speak to numerous financial advisors who are considering leaving their current firms. Some already work independently in their own offices and want to improve their product selection, payout, or level of service, while others are wirehouse or regional producers, considering the step of venturing on their own for the first time. A number of insurance based firms and banks are also providing excellent training to help advisors one day become business owners. Making the move should be a positive change for you. Why make a lateral change? Always strive to be better! Changing firms is a major career decision, and we want you to make the right choice for yourself, your customers, and your loved ones.

“
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OUR DREAMS
BECAUSE WE
ARE LIVING
OUR FEARS.”

~ Motivational Speaker Les Brown

CHOOSING THE RIGHT BUSINESS MODEL

If you decide that independence is the right path for you, the next decision is to determine the best business model for your franchise. Should you affiliate with an independent broker/dealer or go 100% fees and form your own Registered Investment Advisory (RIA) firm? For some, a third solution is to not only form your own RIA firm, but also affiliate with a broker/dealer, which is referred to as the hybrid model. There are benefits to all of these structures, as well as aspects that make each one more attractive to certain types of business owners.

The RIA model is experiencing consistent growth and in recent years has seen large multi-million dollar producers skip the step of joining an independent broker/dealer and go directly to becoming an RIA. This can be the right choice for some highly successful financial advisors. There are significant differences in how the models are managed. Most experts recommend that anyone with under \$100 million in assets forgo the 100% RIA route until you have the capacity to manage the requirements that come with having your own firm without the support of a broker/dealer. If you are debating between the different choices, much, much deeper research is needed than what we can provide in this book. Below is an overall comparison between forming your own RIA or going under the RIA umbrella of a broker/dealer and continuing to have access to commission-based products.

If you choose to form your own RIA, you will have greater setup expenses. Seriously consider hiring a competent compliance professional and an attorney to file all necessary forms to create your RIA. Unfortunately, a sloppy start can cost you your career. There are numerous exceptions to registration rules if you are a pension consultant, a sub-advisor to an investment company, or fall into categories that might classify your business as being “incidental.” I cannot overemphasize that there are times in life when you should rely on the help of others, which is why I just said it twice. Fully understanding the complexities of compliance and satisfying regulatory requirements will involve the full-time efforts of someone in the firm. Depending on your assets under management, you will either register with your state securities regulator or with the SEC. You can register with the SEC if you will have in excess of \$100 million in assets under management (AUM) within 120 days of the effective date of your registration. Also note that not all assets are necessarily considered assets under management from a regulatory calculation perspective. Regulatory assets must receive continuous and regular supervisory or management services. If it appears the firm will not have \$100 million in assets, you must register with the state as an investment advisor. If you register with the SEC and fail to meet required asset levels, you need to deregister as an investment advisor with the SEC and transfer your investment advisor registration to the state.

It is common when establishing an investment advisor to also form an entity such as a corporation or limited liability company and then serve in their individual capacity as an investment advisor representative (“IAR”) of the investment advisory firm. Individuals can also establish an investment advisor as a sole proprietor. The protection from general liability offered to owners of an entity does not necessarily protect a securities principal from liability under the federal and state securities laws. You should consult your legal counsel and tax professional about whether you should establish an entity and, if so, what type of entity to form.

You do not have to wait until you resign from your current firm before starting the registration process. You can start preparing your firm’s investment advisor application for registration before establishing the entity that will serve as the investment advisor; however, the entity needs to be created before the investment advisor application is filed. You should conduct a search of your state’s corporate name database to determine the availability of the intended name for your new entity. Once you select an available name, an application can be submitted on your firm’s behalf to the Entitlement Group of FINRA for an IARD /WebCRD account. You will need to establish the entity with the state corporation office and obtain an employer identification number prior to filing your investment advisor registration application. Many state securities regulators require a firm to include a copy of its articles of incorporation or limited liability company membership agreement as part of their investment advisor application.

What does the RIA model look like in practice compared to affiliating with an independent broker/dealer? In the beginning, there may be a difference in the amount of time it takes before you can start gathering assets and transacting business. When affiliating with a broker/dealer and you have no “Yes” answers on your U-4 in the disciplinary questions of your registration form, you may be eligible for what is called a “TAT” transfer of your registration to your new broker/dealer. Components include:

- You must be currently registered with FINRA and in each jurisdiction where you request temporary transfer of registration.
- You must be currently qualified by examination and registered in the category which is requested in the transfer.
- You must terminate employment and registration with your prior broker/dealer without disciplinary reasons within seven calendar days of the transfer request.

If you have any “Yes” answers/disclosure events in the disciplinary section of your U-4, you will go under review and cannot transact any business until you are approved by FINRA, your home state, and, if the client you are soliciting lives in another state, that state as well. The length of time it takes to obtain approval varies greatly, depending on the substance of

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DECISIONS.”

~ Stephen Covey

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AND YOUR
ASSOCIATES.

the disciplinary action, the states involved, and how much time that has passed since you were subject to the disciplinary action or disclosure.

If you form an RIA, there is typically a lag time prior to approval. The SEC has a regulatory requirement to approve or deny investment advisor applicants within 45 days of the firm's initial filing. Most state securities regulators have very similar time periods, usually between 30 and 45 days. However, the approval process for investment advisory applicants often takes longer than this time frame, depending on several factors. If a firm's initial application packet is incomplete, delays usually occur. Many state securities regulators may require changes to an investment advisory document or request additional information regarding the firm's background and/or investment advisory services. Review of an application can vary significantly due to the particular volume and staffing associated with each securities regulator. If you or your firm has a disciplinary history with securities regulators or are currently subject to a regulatory inquiry or investigation, the investment advisor registration process may be considerably delayed. Once a securities regulator is satisfied with the information provided, the investment advisor applicant and its principal's background, the firm will be approved.

If you decide to go the RIA route, you will either be a martyr and do it yourself or hire others to support you. The compliance and technology requirements to keep your business in line with the expectations of regulators are extensive. You need to establish a written compliance manual, policies and procedures, client agreements, a Form ADV, brochures, and build a monitoring system to capture and store all forms of electronic communication. You need to know and meet the requirements for email and electronic file regulatory compliance. You must also ensure the safety of client data. All personally identifiable information (PII) should be encrypted, both at rest and in transit, behind a secure portal. Advisors should protect all data, limiting access to only those who need it to perform their job functions. From Day One, you need to know things, such as you cannot advertise or communicate with existing or potential clients as a Registered Investment Advisor because the term could be construed as a professional designation, which is misleading. Rules also vary by state. If you are a state registered investment advisor with only a few clients in a state, you might think you are not required to register as an investment advisor, but if you have even one client in a state like Texas, you are required to file.

A much easier way to embark on the path to independence is to affiliate with a broker/dealer. Expect an independent broker/dealer to retain a percentage of the revenues you generate for providing support to your business. 10% to 20% broker/dealer retention is typical. Transaction costs, which are used to pay expenses at clearing firms and the independent broker/dealer, often add another 5% to 10% to your total expenses. In

return, you will receive operations, product, technology, regulatory filing, and sales support, along with often-overlooked, but very valuable, legal and compliance support. If you receive a complaint and end up in arbitration, an independent broker/dealer usually provides guidance and defense, compared to an RIA, where you may get some help from an Errors and Omissions (E&O) policy carrier, but not much more. One of the greatest values you receive from an independent broker/dealer is the compliance assistance they provide to protect and serve your franchise and help you stay in business. Insurance carriers will settle litigation to minimize expenses, while broker/dealers will often fight to protect your reputation.

If you have fee-based accounts, you can possibly avoid many of the headaches of becoming your own RIA by joining under the investment advisory umbrella of an independent broker/dealer. They will take care of all filings for you and help you design your investment advisory brochure. You become an investment advisory representative and utilize the programs and services of the RIA.

There are multiple factors to consider when you analyze the costs, risks, and benefits of the different business structures. Take a look at your revenue mix. Some products, such as variable annuities, do not have as many choices for fee-based advisors as are available on a commission basis. If you receive trail commissions from variable annuities and mutual funds, you will no longer be able to receive such compensation if you go exclusively the RIA route. There are some clients with long-held individual positions who prefer the commission structure over fees.

You need to take into consideration which model will provide the best quality of life for you, your family and your associates. Also determine which model makes sense for you financially. Forming an RIA means either hiring other staff or burdening yourself with regulatory matters, including being out of business for a period of time during audits, performing compliance functions, and processing ongoing filings. Somebody has to be the Chief Compliance Officer. It is definitely not a "one-and-done" proposition. Regulatory requirements are constantly changing and if the bar is moving in any direction, it is certainly moving along the path where more and more will be expected from advisors to keep in line with the expectations of regulators.

As the business matures, you are starting to see firms like Cantella offer the ability to form your own RIA and still be affiliated with a broker/dealer. Doing so allows advisors to trickle into becoming 100% fee-based. Even if your long-term plans are to form your own RIA, to reduce the initial shock and stress of change, consider affiliating with a broker/dealer that can accommodate both your current model and whatever you are thinking of pursuing going forward.

“WHAT YOU
DO MATTERS,
BUT WHY
YOU DO IT
MATTERS SO
MUCH MORE.”

~ Author Unknown

SHOULD I STAY OR SHOULD I GROW



Are you ready to be a business owner? Hold it; are you even in the right business? Take an honest look at what brought you to this point in your career. What motivates you? Step back and try to be subjective about owning your own business. Yes, it is exciting but also extremely challenging. Ownership brings a new set of headaches. Are you ready for the challenge? For many wirehouse representatives having trouble meeting firm production minimums, becoming an independent representative merely delays the process of either leaving the securities industry or exiting the sales side of the business. When you reach the point where you can make more money driving a car for Uber than being a financial advisor, it is time for a reality check. This may not be the right career for you. It is not an easy job. What other business offers the same income potential as a professional athlete with minimal barriers to entry? Yet, four out of five people starting out as financial advisors do not last more than three years. If it was easy, there would be many more of us.

You should enjoy your job and look forward to unlocking the door to your office each day. It does not have to be Utopia - it is still called work - but it should be rewarding. As financial advisors, we are responsible for the financial health of our clients. We also improve our clients' mental health by giving them a clear financial path. We help people plan for retirement and pay for their children's education while trying to do so in the most tax-efficient manner. We help diversify holdings to reduce risk and keep clients focused on meeting their financial goals. When clients panic, we are there to calm them and stay the course.

According to Thomas Stanley, author of *The Millionaire Next Door*, most millionaires rely on the advice of a financial advisor. There is something comforting about having money and knowing that an experienced professional is looking over your investments. Most people, especially executives and business owners, feel they do not have the time or expertise to efficiently manage their own financial affairs. You provide a valuable service and should look forward to helping your clients make better decisions about their money. Anyone questioning this value needs to look no further than the "do-it-yourself" day-trading geniuses who wiped out their life savings buying the next big thing on margin when the Internet bubble burst in 2001. They took a few years off as the market increased and by 2007 were back in, only to get crushed again and throw in the towel in early 2009...just as things were about to become great again. For proof, look at any Dalbar survey or view the flow of assets into equity mutual funds over the past two decades. People buy more at peaks and sell at market bottoms. Advisors help investors stay the course and become aggressive when things are scary.

A representative's level of determination and self-motivation is a strong predictor of success as an independent business owner. We have occasionally seen advisors who thought they were self-motivated, only to find out that they did not work as hard unless they received constant pushing and prodding. They decided their phone weighed a thousand pounds and became incapable of picking it up unless it rang. Ask yourself, "How is my work ethic when my branch manager is on vacation?" "What factors led me to this point in my career?"

You should be organized or have a support person who keeps you working efficiently. Some of the largest producers at Cantella are disorganized. However, their salvation is an excellent sales assistant who keeps their business running smoothly.

You also need objectives and goals for each day, month, quarter, and year, preferably in writing. As an Independent, you steer your own ship, so it is imperative that you know what course to follow. Some of the top producers I know may not write down every goal, but they have methodical, productive plans of action that they follow each and every day. You need to be able to evaluate your activities to ensure they are in line with your long-term goals. In order to maintain your enthusiasm, you should reward yourself for meeting certain goals. Ask yourself, what motivates you? Do you like to attend sporting events, go out to dinner, buy a new piece of clothing, or perhaps take extra time off?

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~ Thomas Stanley
The Millionaire Next Door

YOU SHOULD
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KEY FACTORS TO CONSIDER

COMMUTE

Now, let us break down some of the areas and main points about going independent. Be honest with yourself and really think about the questions below. It helps to take notes about how you feel or jot down important factors that may influence your decision to go independent or stay where you are.

How is your commute now? How will it be if you leave? Do you like commuting? Some people enjoy the down time. Shorter commutes provide more time to devote to other things in life, such as fitness, being with family and friends, or the opportunity to work efficiently and increase your production. For some of you, your new commute may become a trip down the hallway of your home to your office and the only traffic jam will be in front of the refrigerator. Warning: The belly is at risk when the home fridge is always close by.

OFFICE

Do you enjoy your current office environment? Do you like the facility? Do you like your manager and the people you work with? Do you like being associated with your current firm? Does hearing your company's name give you a sense of pride, or would you prefer having your own name on the door and crafting your unique brand identity? Envision your office as an independent. Compare what you are considering building to your current environment.

FAMILY

Will you have more time to spend with family and friends as an independent? Is your spouse supportive of the change to becoming a business owner? A spouse who is against independence should weigh heavily against such a decision. Part of becoming successful involves having those important to us believing that we can do it.

PAY

Compensation is a tricky area and often a primary factor motivating individuals to become independent advisors. What is your current payout? What will it be? Take into consideration ticket charges as an independent contractor. This could be another 5% to 10% of your total gross revenues if your book of business is primarily equities and bonds. If you provide Cantella with a summary of your transactions broken down by product type, we will show you what your paycheck would be doing the same business with us. Analyze the employee benefits you receive now and what you will have as an independent. Your paycheck might be higher, but you also need to add into the equation tax implications of being self-employed, such as health insurance and other benefits you might currently receive. A transition from one firm to another also means lost productivity due to training, processing paperwork, and investing in new systems. As an independent, many of your expenses become tax deductible, but they are still expenses. The number that really matters is not how much you make, it is how much you keep.

How will your current production compare to what you will produce as an independent advisor? Our experience has been that one's success as an independent can be quite varied. We have a number of advisors who dramatically increased their annual production since joining us, while others have decreased. Some are motivated by the fact that they keep a higher percentage of commissions. Other advisors told me that they no longer work as hard because they are making the income they need. Their personal production plateau is not a gross commission number; it is a net income level. In the end, it is not the firm you affiliate with that is the primary determinant of production levels - it is the individual or team. Your analysis should include lost revenue as you transition from one firm to another.

Today's wirehouse handcuffs come in the form of deferred compensation packages. The longer you stay, the tighter the grip on your career as you become an economic hostage. The reality is that some of these packages will make it very difficult to justify change. On the flip side, the sale of your business tends to be on your terms in the independent environment. Typically, you can receive a much higher price than you can as an employee, while structuring the sale at favorable capital gains rates. Your challenge is to determine if the long-term benefits will outweigh the short-term pain of change.

What are you paying for expenses now? What will you pay? Remember, business expenses are tax deductible. When evaluating pay and expenses, have a solid understanding of what will be left for you after Uncle Sam, the state, and any other entity is done taking its piece.

Do you have the initial capital to set up your office? What resources are available to you? Remember your Series 7 exam - borrowing money from your clients can be a career-ending move. Startup expenses, compared to most other businesses, like a restaurant, are minimal because your most valuable assets are your knowledge base and your clients. As the independent industry matures, competition for new branches increases and there may be flexibility from broker/dealers to help you with startup capital.

PRODUCTION

DEFERRED COMPENSATION

EXPENSES

CAPITAL

BUSINESS VALUATION

What is your book worth if you stay versus if you leave? Can you sell your book now? Are there any restrictions on buyers? Some wirehouses permit representatives to sell their books, while others think a gold watch does the trick for many years of service. Representatives with our firm own their book and are free to sell it. We will also help them sell or transition out of the business if that is what they want. We have seen advisors grow weary of the processing and compliance grind, but they love the relationship part of the business. They can stay on board to take clients and prospects fishing or golfing while other staff members deal with daily activities. The value of one's practice depends on the likelihood of keeping assets and who is buying the book. Recurring revenue such as management fees and trails are considered more valuable to a business buyer because they are "sticky" and tend to remain when a key advisor retires, compared to potential fees, such as those generated from trading stocks and bonds. A partner who comes into your practice and transitions into servicing your book is much more likely to maintain existing production levels and a higher price for those sticky assets. Generalized numbers for independents that have been quoted recently have practices valued in excess of two times revenue or seven times the cash flow available to owners. You can get a feel for the value of a practice by visiting web sites such as www.fptransitions.com.

RETIREMENT PLANNING

Are you vested in your company's retirement plan? What happens if you leave? Independent business owners can build their retirement base by maximizing contributions to retirement plans with very high contribution limits. Spouses and family members can also become employees in an independent environment, giving you even more taxation control.

SUPPORT

Do you currently have a secretary and/or sales assistant or will you be hiring support personnel? Independent advisors producing over \$200,000 in gross commissions generally have some type of administrative or marketing support in their office. If you are trying to decide whether to hire employees as an independent, try the following exercise. How many hours do you plan to work a year? What would your annual pay be without an assistant? How much is that per hour? What increase would you expect in your production with support? After additional expenses, what would you net? If the numbers are close to equal in terms of net to you, hire an assistant, as you will get more than just an equivalent paycheck. Most businesses grow over time. Having someone handle administrative tasks that are not as personally rewarding to you also improves job satisfaction. An assistant also improves one's image to current and prospective clients. This is obviously a hypothetical exercise and you will not know the true numbers. Our point is that there is a law of diminishing returns in terms of how many hours you have in a day and how much you can generate in revenue. If you are a solid producer and a portion of your day is spent doing administrative functions, expect to be paid administrative wages for that portion of your time. Advisors with sales assistants tend to produce at much higher levels than those without.

You can also hire local college students as interns to help your practice. A number of colleges and universities now offer comprehensive curriculums focused on those interested in pursuing a career in financial planning. With the recent spike in demand for such skills, you often need to find these individuals by the end of their sophomore year in order to have a solid chance to hire them when they graduate. Even schools that do not offer financial planning majors still may provide course credits for career-related internships and you receive motivated, hard-working support to help your business grow for minimal expense. Mothers with children in school also make great employees for the producer who does not feel the need to hire someone full-time and can be flexible with hours worked. The right ratio of staff to production is a key component of any successful business.

What percentage of your business is in new issues? This is one area where wirehouses still have a superior edge. Your experience may be that you rarely receive stock for hot issues, or perhaps you are one of the luckier ones and receive a good portion of all offerings. If new issues are a major portion of your business, this should weigh negatively when considering Going Independent. At Cantella, we receive syndicate allocations, but it is not at the significance level found in a wirehouse.

What software do you currently utilize? Technology varies between firms. Find out what is available at the independent firm(s) you are considering. Does the prospective firm(s) have in-house, dedicated technical support staff, or do you have to rely on their clearing firm? You will likely find that the same quote system you currently use is also available to you as an independent. The Internet has made access to products and services simpler and more convenient. Most financial planning and contact management software vendors will let you try their product for a month for free before you commit to making a purchase.

Closely review any products in your book that are available exclusively at your current firm. On the mutual fund side, access for independent representatives is much less restrictive than it used to be (e.g., Legg Mason funds are now available to the public, Merrill Lynch funds merged into BlackRock funds and are now transferable). A major challenge for representatives transitioning into independence today is finding a comparable product solution in the separately managed account space, as each wirehouse typically has its own platform of money managers. Advisors placing significant assets with outside money managers need to make sure a viable solution awaits you in the independent channel. Later in this book, we discuss matching your current products with what is available as an independent.

SUPPORT CONTINUED

SYNDICATE BUSINESS

TECHNOLOGY SUPPORT

PROPRIETARY PRODUCTS

PACKAGED PRODUCTS

Depending on the independent firm, lack of products is typically not an issue. Most firms will have an extensive list of available funds. Major clearing firms offer what have become known as mutual fund supermarkets, where you can buy and sell around 20,000 funds in one place. Insurance company sales agreements, limited partnerships, alternative investments, and other niche products, such as private placements, will vary among independent firms.

MANAGEMENT

Does your manager push products whose investment merit you question? Does your manager help you grow your business? As an independent, you become the manager. No one will tell you what to do or what products to sell. One rep told me he stays with his firm because his manager leaves him alone and lets him do what he wants. My comment to him was, "Why give up two-thirds of your commissions for that? Your manager is paid to help you increase your revenues. Why keep a smaller percentage of what you generate if management doesn't help increase your production?"

BUILDING AN OFFICE

Do you want to add other representatives to your branch? As an independent, many firms allow you to recruit other representatives and receive overrides on the business they place. Cantella requires you to have a Series 24 to receive overrides on others. We have the right of refusal for any representatives looking to join, but will usually look to the branch manager for guidance. You typically have some time to obtain the Series 24 exam to become a branch manager. It is a 150-question, multiple-choice exam that is not nearly as daunting as the Series 7 exam.

STATEMENTS

Compare statements between your current firm and the proposed firm. How are they better or worse than your current statements? Who will carry the account? Recognizable clearing firms offer safety of client assets, SIPC coverage, often excess insurance coverage, and a household name to provide the warm fuzzy feeling to the clients that their money is safe. With independent firms, customer checks are made payable to the clearing firm that carries the account, not your broker/dealer. Customers will be comforted if they make checks payable to a brand name. The Madoff fear that money can disappear overnight is addressed by letting clients know they can view their accounts on-line in real-time. Madoff's illusion was partly possible because he looked in the rear view mirror and then decided what he bought and sold to get to his fictional returns at the end of each month.

RESEARCH

What do you use for research now? What will be available to you at the independent firm you are considering? Can you obtain the research you want? What is the annual performance of your current firm's research and how does it compare to what is available to you as an independent representative? At Cantella, too much research is the challenge. An advisor can read the morning meeting notes from Credit Suisse and Raymond James and subscribe to other sources, but if so, how much business will they do?

The ability to build your own brand is typically much easier to do in an independent setting and you have more flexibility to do so. Many independent firms allow you to have your own website, brochures, and marketing pieces. Some firms, including ours, allow you to have your own email domain, as long as you set it up according to the firm's requirements. Wirehouses provide marketing muscle through advertising and name recognition.

Your relationship with your customers will carry great weight in terms of what percentage will move with you. For those who place the needs of the customer first and have developed a deep level of trust, the transition to independence tends to be more successful. You need to analyze the likelihood of whether or not customers will move with you. Independent advisors have internal goals, but are not subject to external pressures to produce. This often leads to more "client centric" relationships. As an independent business owner, you will have more flexibility choosing clients. You will typically be paid for accounts in the independent space irrespective of account size.

Fear of change is one of the most powerful things that keep people doing what they are doing, even though they are better suited for something else. With change comes opportunity, but it is not free. Fear also can dull one's senses into a level of complacency. Can you take that fear and harness it into strength should you decide to take the leap to independence?

Do you have the personal drive and desire to be successful on your own? This is the critical, "Look at yourself in the mirror" question and will be the determining factor as to whether going independent will be a successful venture for you.

“MOTIVATION WILL ALMOST ALWAYS BEAT MERE TALENT.”

~ Norman Augustine

MARKETING

CUSTOMER LOYALTY

FEAR

MOTIVATION

CHOOSING A BROKER/DEALER

We hope that after making the lists, you have a better sense of your feelings regarding going independent. Now, let us look deeper into the process and think about aspects of your new business, starting with one of the biggest decisions - choosing a new broker/dealer.

Find the broker/dealer that is right for you - we are not all created equal. Look at it like a business marriage. You can only marry one, so choose well. Clearing arrangements, products, staffs, work cultures, and personalities are all different. Make sure the goals and objectives of the firm will help you achieve your own business goals. If your business plan includes growth through training new representatives, it would be foolish to join a firm that refuses to sponsor a new employee to take the Series 7 exam. Analyze your personal roadmap and vision for your new business—choose a firm that can support you. Do your homework, because changing firms is a lot of work. When you make your decision, you should feel comfortable that the firm you select will be your broker/dealer for the rest of your career.

Take our firm, Cantella & Co., Inc., as an example to help in terms of evaluating other broker/dealers to get a better feel of what is important to you. There are some things we do as well as any firm, but we also have our weaknesses. Cantella tends to match well with wirehouse-type producers. We built the company identifying and implementing what wirehouse representatives need to be successful, while removing many frustrations in areas of communication and flexibility working with customers. Our unique tri-clearing arrangement with three NYSE member firms—Raymond James, Pershing LLC, an affiliate of the Bank of New York Mellon, and National Financial Services, a Fidelity Investments Company—provides advisors access to almost every product or service found in a wirehouse. Because we have access to institutional research and a platform backed by experienced traders from our days as an institutional firm, we generate a higher percentage of individual equity and bond trades than most other independent firms. Some independent firms consider buying and selling individual equities or bonds too dangerous and will give you a lower payout on these products. We consider them a viable choice, just as we do mutual funds, variable annuities, unit investment trusts, separately managed accounts, and other products.

Cantella does limit some products, which makes us a poor match for certain advisors. We do not let you solicit bulletin board or pink sheet stocks. Our selection of limited partnerships is not as extensive as other independents. We feel a major part of doing our job well is to protect your clients from losses and you from lawsuits. If we perceive the risk to be greater than the financial reward, it is not something we want advisors to solicit. Lack of liquidity, prior experience of management, past performance, and potential for fraud weigh heavily in evaluating product agreements. Rather than retain the 3% due diligence fees that sponsors want us to keep and

not share with our advisors, we instead choose to pass completely and not offer the product. We may be too conservative for some representatives, but we feel it is part of the reason we have remained in business as an independently owned company for more than sixty years. Yes, we will miss the next Microsoft-type company with no sales that needs capital just to stay in business, but hopefully we will also avoid the next scam that could cost advisors their careers and our company's existence.

The biggest mistake we see first-time independent advisors make is focusing on the highest payout and/or upfront cash. If you are coming from a wirehouse or regional, you are likely making a quantum leap in terms of the percentage of your commissions you retain. Independent firms run on thin profit margins. If someone promises to let you keep 95% to 100% of commissions, how much money do you think they will have left to provide support for you? One frustrated representative who left a 100% payout firm to join Cantella explained to me, "Yeah, I was getting a 100% payout, which was a joke because they had so many hidden fees. That wasn't what really mattered though, because 100% of nothing is nothing! They were losing my clients' checks and I was losing clients. It took forever to return my phone calls, and when they finally returned a call, they rarely helped me."

Your broker/dealer should make a profit and you should want them to. Your ideal relationship as an independent is one that works for you, for your clients, and for your broker/dealer. It is a "win/win/win" relationship. We base most of our decisions in our home office by asking the questions, "Is it good for the customer? Is it good for the advisor? Is it good for us?" If your broker/dealer lets you keep too much, there is a good chance that eventually:

- 1. you will decide to find a new broker/dealer due to horrific service and support, or;**
- 2. you are being used like a pawn on a chessboard and the firm will be sold to someone looking to acquire their distribution channel, ending in additional fees or reduced compensation for you, or;**
- 3. they will go out of business.**

Consider the potential impact in terms of lost productivity and the faith your clients will have in your decision-making abilities if you make the wrong choice and need to change firms again. When selecting a broker/dealer, choose once and make the right choice. To help you make that choice, it is helpful to build a pro forma over five years based upon your current production, anticipated production and business mix going forward in the firm(s) you are considering.

**THE BIGGEST
MISTAKE WE
SEE FIRST-TIME
INDEPENDENT
ADVISORS
MAKE IS
FOCUSING ON
THE HIGHEST
PAYOUT.**



QUESTIONS TO ASK BROKER/DEALERS

By doing your research, you can find the firm that is right for you. Asking key questions helps you quickly narrow your list to a few firms where your business and personality match. Fortunately, as the industry continues to mature, most independent firms are getting better. Below are some helpful questions to ask potential broker/dealers. Not all of them will apply to your situation, but pick the ones important to you and do not be afraid to ask.

1. How long has the firm been in business? Think about when you first started in the business. You probably made a number of fundamental mistakes that you now avoid. The same happens with broker/dealers. A broker/dealer with experience and a willingness to learn from its mistakes brings that education to your practice.
2. What is the net capital of the firm? Can the firm handle losses from lawsuits or down markets? Does it have access to outside capital?
3. Is the broker/dealer registered in all states in which you plan to do business? Check insurance licensing also, as it is a separate approval process for firms. It can take months to be approved in some states. If the broker/dealer is not transacting securities or insurance business in a state where you serve clients, do not rely on a salesman's promises that this issue is easily resolved.
4. Is the firm a Registered Investment Advisor? If so, can you transact business under its RIA? Under your own RIA? What flexibility will you have with fee-based accounts? Do you have to use the firm's own wrap program or can you utilize outside money management programs? If so, which ones? Can you add new money managers? Can you manage accounts yourself as portfolio manager on a discretionary basis?
5. How many employees are in the back office for support? What is the ratio of support people to registered representatives? What access will you have to senior management? Can you pick up the phone and talk to the CEO or will a gatekeeper stop you?
6. What is the level of expertise in the back office? What percentage of the home office has their Series 7? How many have college degrees? Are the bulk of employees relatively new to the firm, or have they been in the business for a number of years? Is it a revolving door or a company that treats employees well? If a company treats support people poorly, what are you in for? Find out what the company does to retain valued support staff. Try to get a sense of the emotional connection between advisors and the home office personnel.
7. What is the firm's retention rate for representatives? Of those who left the firm, what were their reasons for leaving? What type of relationship can you expect with your broker/dealer? What is the firm's culture? Consider the firm's policy for returning phone calls and emails, how the home office values your input, and interaction with the home office staff.

8. What are the long-term plans of the broker/dealer? Who owns the broker/dealer? How does ownership impact product selection and what you can offer to your clients? Are there any proprietary product conflicts? Are there products with higher profit margins for the broker/dealer? If you saw how much broker/dealers are paid in due diligence fees for some non-traded products, you might hesitate to sell them.
9. What transition services are offered? Will an employee visit your office during the transition? Will they work with you to hire a sales assistant? Will they help you train support staff?
10. What are the requirements for becoming an Office of Supervisory Jurisdiction (OSJ)? Will the firm sponsor you to take additional exams? Can you recruit other representatives and receive an override on the business they place if you serve as an OSJ? What if they open their own branch?
11. Can you develop your own business identity, or are you required to always use the broker/dealer's name? Can you have your own website? Can you have a personally branded email address?
12. What are the annual and monthly fixed costs charged by the broker/dealer? Get a list of all fees in areas such as registration, technology, stock quotes, compliance, etc. What fees are charged for non-producing registered personnel? What other costs should you expect that are now being paid by your current broker/dealer?
13. Ask potential broker/dealers, "Who is your client?" If it is the investor, you as an advisor may be considered a means to an end, whereas a true independent broker/dealer understands that the company ceases to exist without representatives. "Who is the client?" is also a good question for the compliance department. Some compliance departments view their job as rule enforcement. Others take a proactive approach to help you grow your business, while protecting you from lawsuits and regulatory violations.
14. Review the representative agreement. If things do not work out, can you transfer your client accounts without the broker/dealer actively soliciting your book? What is the broker/dealer's policy if you leave? Is there a non-compete clause? Is the firm a signatory to the Broker Recruiting Protocol? What is the firm's privacy policy? Privacy policies may tell you something about the firm's attitude towards who owns the clients. You are entering into a business marriage and your representative agreement is like a prenuptial agreement. Make sure it is good for you, as you are the one bringing the assets to the table.
15. "Will you allow me to write a book?" This is a question to ask the head of compliance, not the person recruiting you. Even if you have no intention of writing a book, it will give you a sense as to how far compliance is willing to go in order to help you.
16. How will the firm assist you in developing your succession plan? Is any capital available for buying other practices?

“IT IS WISER TO FIND OUT THAN TO SUPPOSE.”

~ Mark Twain



PICK THE QUESTIONS IMPORTANT TO YOU AND DO NOT BE AFRAID TO ASK.

TECHNOLOGY

1. What type of access is available to your client accounts? Is information in real-time? How do clients access their accounts? What is the cost for online account access for you and your clients?
2. How do you enter trades? What type of access will you have to traders? Can traders work orders for you? Can you enter orders online, through traders, or both? What costs are associated with executing orders? What portfolio rebalancing tools are available to you?
3. What type of accessibility will you have for stock quotes? Research? News? What are the costs? Does the firm allow billing for exchange fees under their umbrella for your stock quote system? Billing through a broker/dealer with multiple users instead of directly to you could save about \$1,000 per year just on NYSE exchange fees.
4. Can you view your clients' information online or do you have to run to the filing cabinet and yell when it doesn't open? Are you required to keep hard copies of account paperwork in the office? Are you able to submit scanned images or are you required to provide hard copies?
5. Does the technology department have the ability to write customized software programs and reports for you? How much do they charge for this service? How well does the firm's technology staff understand the business and the needs of representatives? At Cantella, we have a suggestion box driven by advisors. If they recommend something that makes life better for them, it probably will help others. We have staff members, including our CEO, who know how to write computer programs. This skill enables Cantella to implement changes that benefit all advisors.

PRODUCTS & SERVICES

1. Can you discount commissions? If commissions are discounted, is your payout percentage discounted, or does it remain the same? Can you charge above the firm's standard commission schedule? Does the firm have a commission minimum on each trade?
2. What mutual funds, REITs, variable annuities, and variable life insurance products are on the firm's approved list? Is the broker/dealer willing to add new products? What is the due diligence process? What other products are available?
3. What types of accounts are available? (DVP/RVP, IRA, Roth IRA, SEP IRA, Coverdell ESA, Profit Sharing, Money Purchase, 401(k), Solo 401(k), 403(b), 457, 529, Non-Prototype Retirement Plans, etc.)
4. What is the procedure for approving marketing and sales materials? What can you expect for turnaround time from compliance for approval of marketing materials? What flexibility does the firm allow for developing your own marketing materials? What marketing material is supplied by the broker/dealer?

5. Can you see a sample client statement? Will your logo, name and phone number appear on the statement?
6. Will you have access to cash management accounts to provide your clients a debit card for ATM access, automated bill payment, travel insurance, reward points and checking privileges?
7. How does your product mix compare with the product mix of the firms you are considering? While purchasing mutual funds and variable annuities is a simple processing task, other areas such as equity and bond trading, Rule 144 sales, and estate planning can be more complex. A broker/dealer processing minimal business in your key product is an indication of a potentially poor fit for you. Analyze the areas of support you need and what is available to help you.
8. What are the clearing capabilities? One of the first steps in having your clients place trust in your career change is helping them evaluate the safety and security of where their assets will be held. Clients make checks payable to the clearing firm and a household name provides comfort. The clearing firm originates a great deal of available products and services. Take an online tour to view screens and capabilities. Can the clearing firm accommodate DVP/RVP or Prime Broker accounts for institutional or high net worth clients?
9. What insurance coverage does the broker/dealer and the carrying firm offer for clients if your broker/dealer or clearing firm were to fail?
10. What is the firm's policy towards soliciting equity indexed annuities? What about traditional insurance business? Does the firm have an approved list? Are you required to run the business through the firm or will it be treated as outside business? How are you compensated? Traditional insurance product commissions are often processed at two levels, the producer and the agency level. It is a "one plus one equals three" system for many products, as the more you produce the higher percentage you retain. At what level will you be compensated? If the firm receives a bonus payout, does it figure you into the equation? What is the firm's approach towards traditional insurance products?
11. Explore in depth the fee-based side of business. Can you have your own RIA? Can you work under the RIA umbrella of the broker/dealer? What fee-based programs will you have access to? Is there any chance to add additional asset managers? What fees are involved in each program and how much is the broker/dealer retaining? How does pricing for the advisor as portfolio manager program work? Cantella offers three choices: The client pays transaction fees, the advisor pays transaction fees, or the advisor can make an unlimited number of trades for a fixed fee.

“

WE GET WISE BY ASKING QUESTIONS, AND EVEN IF THESE ARE NOT ANSWERED, WE GET WISE, FOR A WELL PACKED QUESTION CARRIES ITS ANSWER ON ITS BACK AS A SNAIL CARRIES ITS SHELL.

”

~ James Stephens

“
AN
INVESTMENT
IN KNOWLEDGE
ALWAYS PAYS
THE BEST
INTEREST.”

~ Benjamin Franklin

PAYOUT

Provide the independent firm you are considering with a copy of your production run. What would you net in your pocket if you did those transactions with them?

Ask potential broker/dealers about all of their fees. What is the cost and what is included for:

- Licensing fees
- State registration fees
- Errors & omissions
- Technology fee
- Clearing firm access fees
- Client access fees
- Branch audit or compliance fees
- SIPC assessment fees
- FINRA gross income fees
- Continuing education fees (Firm and FINRA)
- Marketing fees
- Non-producing staff fees
- Any additional fees

What is the payout % for:

- Mutual Funds
- Equities
- Options
- Fixed Income
- Fixed Insurance
- Variable Annuities
- Variable Life
- Asset Based Fees
- Financial Planning Fees

Now that we have talked a little about finding the right model and a broker/dealer that fits you and your goals, let us move to the topic of your office. Take a moment to visualize where you want your office, what it will look like and how it will run. Keep these things in mind during the next few sections because it will be helpful to see the big picture of going independent.

Design your environment for maximum profitability and career satisfaction. Location may help your business in terms of image, possible walk-in clients, and have a major impact on your bottom line, but it is not the most significant aspect of your business - you are. One of Cantella's largest producers works out of an office in his home. He prefers transacting business over the phone with established clients and meets prospects in the comfort of their own home or office. He sees corporate executives at their office at the beginning of the workday, or at a restaurant for breakfast or lunch. He keeps his business focused and handles all of the paperwork himself. He has minimal expenses, such as Internet, mail, and phone. With the 90% payout he receives, he keeps more than twice what he did at his old firm and his commissions are steadily increasing.

While the example above may be too simple for your taste, you want to be careful not to go too far spending too much on an office. If you have been producing under \$200,000 a year, it probably is not wise to pay \$5,000 a month for rent, hire a personal secretary, a sales assistant, and outfit your office in top-of-the-line mahogany furniture. Do not take the *Field of Dreams*, "Build it and they will come" approach. We have seen a few advisors think they were going to create a powerhouse branch with many advisors and lease over 5,000 square feet of office space. It made clients uncomfortable seeing so much of the floor vacant when the others "didn't come."

Be very positive about your switch to independence - run a class operation that you are proud to call your own, but do not force yourself to produce beyond your capabilities. A better strategy is to find the amount of space that is right for you now. If you are fortunate and grow to add additional employees, then take on additional space. An approximation of 300 to 500 square feet per employee should give you an idea of how much space you will need. Law firms typically allocate about 300 square feet per employee, while a call center environment might only have 150 to 200 square feet per employee. Take into consideration space requirements for meeting with clients, conference room, kitchen, processing space, and a "loss factor" if the space has nooks and crannies.

Rates for office rentals vary, so consult a local realtor to get some guidance regarding potential business locations. When meeting with the realtor, make sure you set up their solo 401(k) plan, as most realtors are self-employed contractors who can defer a significant part of their income per year. The same opportunity goes for the printer who may handle your stationery, your accountant, and your lawyer. It does not take rocket

CHOOSING YOUR OFFICE LOCATION



TAKE A
MOMENT
TO VISUALIZE
WHERE
YOU WANT
YOUR OFFICE,
WHAT IT
WILL LOOK
LIKE AND
HOW IT
WILL RUN.

science to see this is an easy way to gather assets, especially when you are already their customer.

If you know where you want your office to be located and have adequate capital, consider purchasing a building or office condominium. Purchasing an office in the very beginning may be risky in terms of future flexibility, but it also carries potential rewards. Deciding whether or not to buy commercial real estate for your business is similar to the decision one makes about buying or renting a home. If you can afford it, you will generally do better in the long-term owning rather than renting.

A successful strategy we have seen is to open an office that can provide walk-in business. In small communities where rent is reasonable, a storefront gives you a competitive advantage because you can use it to advertise. Edward Jones is a firm that has been quite successful opening offices on the main streets of small communities and in strip malls throughout America where competition is minimal. You can post attractive yields or marketing messages in your front window to bring in new customers.

Consider opening your office in a business complex, which includes businesses that can provide referrals. Landing a few key accounts in an office building can help pay a major portion of your expenses. If you have a working referral relationship with an accountant or an attorney, an office in close proximity may benefit both parties. Some representatives have partnered with attorneys or CPAs and set up their office in the other's location. Cantella sponsors attorneys and CPAs to take their securities exams and any licensed person can share in revenues with existing representatives.

To control expenses, another consideration is virtual office space and/or executive suites. Companies such as Regus offer an international network of ready-to-use offices and meeting rooms. Unlike traditional leased space, these arrangements let you utilize exactly the amount of space based on your needs. For example, meeting rooms can be rented by the hour, half day, or full day in cities throughout the country. The web site is www.regus.com and the phone number is (800) 633-4237.

Your first office may not be your final office. In some areas a sublease will be the best financial solution. You can save on rent, and because your business is not as complicated as others to move, it will not be a huge burden when it comes time to relocate if you choose not to sign a new lease.

When furnishing your office, remember furniture has more pricing flexibility than most other items. Our experience with furniture dealers has been that by simply mentioning that you are getting multiple bids to outfit your office, the price quote quickly becomes just 50% to 60% of the list price. Most of us are not comfortable haggling over prices, just as we do not like customers negotiating our fees, but this one step requires no negotiation and usually saves you money. A benefit of subleasing is that sometimes the furniture is included in the deal.

When possible, you should purchase equipment and only consider leasing equipment if cash flow is an issue. Generally, computer equipment is leased for a two-to-five year period, and at the end of the lease, you should have an agreement allowing you to own the equipment for a dollar or some minimal amount. Do not enter into a lease with a high buyout option if it is equipment you will still need at lease expiration.

Whatever technology you invest in will probably be obsolete within three to five years. Fortunately, competition and improvements also make the latest technology extremely affordable. The simplest philosophy when buying computers is to buy one level below the top of the line model. With technology becoming so inexpensive, watch out for "recommended upgrades" that get expensive quickly, but provide little added benefit. Before you buy any piece of technology, talk to your firm's IT area because they can help you avoid costly mistakes and tell you which upgrades you actually need. Your broker/dealer may also have access to discounts; one such discount all broker/dealers receive as a FINRA member is a 10% discount when buying Dell computers. You can visit www.dell.com/finra for more information. However, FINRA members do not always get the same sales as the general public.

Have some type of redundant Internet connectivity available. Our business is almost entirely online. If your primary Internet provider goes down, have a secondary solution available. Personally, my android cell phone provides Wi-Fi access wherever I go. Our business is portable, so plan to build for access to information when you are not in the office.

If you want color for greeting cards, newsletters, performance reports, etc., consider purchasing a color laser printer, as it will provide the best printing quality. The price on color laser printers has dropped dramatically in the past couple of years; however, the real cost for printers is in the ink or toner, not the unit itself. Be careful when buying refurbished/refilled ink and toner - some companies' cartridges are good quality, but many are not.

MAKING YOUR OFFICE WORK FOR YOU



“YOUR LIFE
DOESN'T GET
BETTER BY
CHANCE.

IT GETS
BETTER BY
CHOICE.”

~ Author Unknown

You must also have the ability to scan documents. The best way to send something is to scan and email it. This way, you have a copy of what you sent as well as a trail of when and where you sent it. Doing so is much more reliable than a faxed transmission where you need to confirm the other side received the document. Talk to your broker/dealer's technology area for help choosing a model that fits your needs. A multifunction printer, copier, scanner, and fax machine is usually the best solution for space and cost for an independent business owner.

When it comes to choosing a quote system, there is a large variety to choose from as an independent representative. These include popular systems such as Market-Q, QUODD, DTNiq, Thomson Reuters, and Bloomberg. Prices range from about \$50 per month to a separate Bloomberg terminal, which can be over \$2,000 a month. Cantella advisors who only need occasional Bloomberg access can utilize our home office terminal. There are numerous apps available and many are free. I am a fan of learning, so I joined AAIL.com, the American Association of individual investors. The screening tools are amazing, the content very educational, and I know where to go for new technology because they provide commentary on new products and services throughout the year. A lifetime membership is about \$400. I also subscribe to gurufocus.com to learn what industry experts are buying, the logic behind investments and to analyze financial statements.

Ensure that you install adequate phone lines. You will need to have enough phone lines to properly route all customer calls so they are not dropped or receiving a busy signal. This is not an area you want to neglect, as your ability to communicate with clients is paramount.

The following are additional websites we have found particularly useful when establishing an office:

- **www.lowermybills.com** You will find ways to lower many of your monthly expenses from phones to Internet to utilities.
- **www.consumersearch.com** The site takes all of the available reviews for products and then summarizes the ones that are considered the best to own. It also helps with the next step of making a purchase, as you can shop a number of vendors to find the best price for a recommended product. I have used the site personally to buy lawnmowers, cameras, vacuum cleaners, and more.
- **www.ebay.com** It is an efficient way to buy or sell items. Keep in mind that auctions can be like gambling. You become engrossed in the excitement and forget your purpose, which is to purchase something you need for a lower price.
- **www.craigslist.org** This site has multiple uses. You can use it to hire employees, buy or sell office equipment, buy tickets to events and much more. When I found out how much it would cost to rent a limousine for my daughter's birthday party, I just bought an older one on Craig's List.

When a customer walks through your door, how will they feel about working with you? There are so many different ways to decorate your office, and this is an area where your personality becomes an extension of your physical surroundings. Your office should accomplish a number of things, but the two most critical ones will be:

1. Are you in a comfortable working environment that lends itself to productivity?
2. Does your office environment convey the image you want to project into the minds of your clients?

Below are some factors to consider and ideas we have seen representatives utilize in their offices:

- Have magazines that cater to the lifestyle you help your clients achieve or maintain rather than educate your clients about our industry. Magazines such as *Travel and Leisure* and *National Geographic Traveler* make sense: The latest copy of *Money* magazine telling them to fire their broker or *Financial Planning* does not (unless you are on the cover). CNBC on a television in your office might convey that you watch the same crap as clients do, so why do they need you for advice?
- Have fresh cookies or pastries and fresh coffee ready whenever a client meeting is scheduled. Serving tea and coffee in nice china conveys a professional image.
- To take the above point a step further, find out their preferences. If you ever stay in a Ritz Carlton and comment to an employee that you love their chocolate chip cookies, you may find some cookies waiting for you the next time you check into a Ritz. Keep notes on all clients and strive to provide exceptional, memorable service.
- Arrange your reception area so clients cannot see the computer screen or any piles of paperwork. Also, try to keep your mail/file/work room and/or kitchen area out of sight from the reception or client meeting area(s). The appearance of disorganization can cause clients to fear for the safety of their privacy and proper management of their assets. Clients should not be able to see the name of other customers. It will make them question if their privacy is being protected.
- Having the latest in technology when it comes to items such as flat computer and television screens show you are keeping current.
- Some offices have created a library of books in their waiting room. Start with your favorite books. This can often lead to a drop-and-borrow system where clients can exchange books and drop off recently read books. I would only do this if you are an avid reader, as clients will want you to read their latest favorite books. A working library can create a bond with clients if you share a love of reading.

A PROFESSIONAL OFFICE



SURROUND
YOURSELF
WITH QUALITY,
NOT CLUTTER.

BUY IT ONCE,
AND BUY
IT RIGHT.

~ Marni Jameson

- Consider a shelf of business-related books that display your knowledge of investing. One area to locate the books is at shoulder height on a shelf behind where you sit when meeting with clients.
- Round tables are more effective for meetings as they eliminate the barrier created by executive desks.
- If you have utilized the media and marketing to your benefit and have a number of articles, brochures, or press releases, consider having a nice leather binder of such items in your reception area.
- If you have the credentials, consider having them professionally framed and matted to build your “Wall of Fame.” Whenever you attend a conference, have your picture taken with keynote speakers or top-ranked analysts, preferably in front of a podium with the logo of the meeting or corporate host.
- Make sure lighting is comfortable for clients. Avoid any bright lights or windows behind you during meetings, as the glare can create problems and clients will miss your facial expressions.
- Provide a nice pen and paper with your logo on it for each meeting. Encourage note taking, as it keeps meetings interactive and shows you are looking for client input. One high-net-worth advisor provides a different, unique new pen for clients each time they come to his office. I still remember getting a prize each time I visited the dentist as a child.

To make sure you are conveying the right image, try this exercise about once a year. Picture yourself just moving into town. Walk into the office. Sit in the reception chairs and look at the surroundings. Sit in the meeting chairs. How do you feel? What message do you receive? Is the person managing this location someone I might trust with my life savings? How do the employees look? Are they professional in appearance? Is the office clean and organized? Ask a few close friends to do the same exercise and provide you with honest, objective input.

Keep good records of all office expenses; they are deductible on your taxes. Consider getting at least one credit card for business expenses. I keep a handful of cards in my wallet and utilize the best reward for each purchase. One card I like is the Starwood Preferred Guest Card from American Express. Recently, new cardholders were offered 10,000 free points when you make your first purchase and a bonus 15,000 points if you spend \$15,000 during the year. Those 25,000 points are good for about five nights in a decent hotel and two nights in an upscale hotel. You can convert your points into Skymiles with over 150 airlines for free flights, and for every 20,000 miles that you redeem, you receive 5,000 bonus miles. There is no annual fee for the first year and a reasonable fee thereafter. My favorite web site to find the best rewards card available is www.thepointsguy.com. The warning, as we all know as financial advisors, is to pay your balance in full every month to avoid any finance charges or these little perks become extremely expensive.

It can be difficult to shield your business from lawsuits through organizational structures, but you may be able to protect personal assets such as your home. If you have not done so and your state allows it, consider filing a Homestead Declaration on your home to protect it from being seized or sold in the event of a judgment against you.

Consulting a small business attorney and accountant can help you properly form your business. Your accountant can help navigate Section 179 deductions and other tax matters. As a self-employed contractor, there are a number of legitimate ways to limit your taxes.

FINRA rules require pay to be given to a registered representative, so those setting up corporations need to go through a process of receiving checks and depositing them into a business account. Below is a brief overview of some ways to organize your business.

A sole proprietorship is controlled by the owner: The owner is the sole decision-maker, all of the profits go to the owner, and it is easier to form than other business entities. This type of business entity gives you a great deal of freedom in operating the business, as you do not have to share decision-making power or report to anyone else. There are also less government restrictions and control, so there are fewer reporting requirements. The main disadvantage for a sole proprietorship is unlimited liability. If your business is sued, you and your personal assets are at risk.

A partnership is an association of two or more people who share ownership and control over the business. There needs to be a legally binding partnership agreement among all of the partners to quell any potential disagreements about the amount of time and energy spent by each party. The partnership agreement should include how decisions are to be made, how profits are to be distributed, how disputes are to be resolved, how new partners will be admitted, how existing partners can be released, and how the partnership would be dissolved if necessary. As with a sole proprietorship, a partnership

OTHER BUSINESS ESTABLISHMENT ISSUES TO CONSIDER



“
I DON'T
BELIEVE IN
LUCK—
I BELIEVE IN
PREPARATION

~ Bobby Knight

is easy to form and the profits flow directly to the owners. Additionally, you have the benefit of more than one person working to build the business. A disadvantage of a partnership is that all the partners can be held liable in the case of a judgment against the business. Also, the partners are liable for each other's actions.

A corporation is a state-sanctioned entity that is separate from those who own it. A corporation can be taxed, sued, and enter into contractual agreements. A corporation sells shares to its owners who elect a board of directors to oversee the company. The corporation does not dissolve when it changes ownership. Generally, shareholders are only liable for a corporation or its debts, up to their investment in the company. Officers can be held liable for their failure to perform an action, such as paying taxes. A corporation can also deduct the cost of benefits for its officers and employees. Additionally, a corporation under certain circumstances can elect to become an S Corporation, which treats earnings and profits as distributions that pass directly to personal tax returns. The only catch is that if you are an employee, you have to pay yourself "reasonable compensation" for any work you perform for the company. A disadvantage of a corporation is double taxation for some owners. A corporation is taxed at the corporate level and then again at the personal level for payment of any dividends. The process to incorporate also takes a lot of paperwork and time, and in most states, money. Establishing a corporation is more complicated than the other forms of business, as well as being subject to greater ongoing monitoring by all levels of government.

Limited Liability Companies combine the advantages of corporations of limited liability with the control and tax advantages of a partnership. A Limited Liability Company is more complicated than a normal partnership in its formation. The owners are the members and the life of the LLC is stated when the forms are filed. In general, the LLC is taxed as a partnership. An advantage of an LLC is the limited liability of its controlling parties. If the LLC is sued, often the owners do not have their personal assets at risk. The disadvantages include strict IRS rules as to when you can be taxed as an LLC and the rules you need to meet in different states to become an LLC.

For a listing of attorneys that specialize in small business, you can go to the state Bar Association web site: www.bestcase.com/statebar.htm. You can also find out details about the experience of attorneys by using the Martindale-Hubbell Law Directory, which lists attorneys by city and state, provides details about their specialties and prior experience. This is also a nice place to start if you do not already have a system for referring your current clients to attorneys. Talk to other small business owners for help in finding a good small business attorney. If the firm you are considering has in-house counsel, that person might be a resource for you as well.

Some questions to ask accountants before hiring one:

- How long have you been in business? Specifically, how many years working with small business owners?
- What percentage of your clients are small business owners?
- Do you outsource any work to other companies or within the office? If so, what is the education, experience, and expertise of those individuals?
- How many people are in your firm? Note: In larger firms you may not always speak to the same person.
- What is the firm's average response time?
- What is your hourly rate? Do you charge for phone consultations?
- If I am audited, are you there with me?
- Are there certain systems you require me to use to keep track of income and expenses? Can you help me set up some bookkeeping systems?
- Are there any notable changes to the tax law that I should know to help maximize my after-tax income now that I am establishing my own business?

Your first stop for maximizing retirement contributions should be yourself. Changes in tax legislation allow you to contribute significant pre-tax money into your retirement accounts. AIM and Pioneer are a couple of fund families that can provide more information on self-employed 401(k) plans. Most of the major clearing firms also now offer a self-directed solo 401(k) plan where you can buy anything in your solo 401(k) plan that you could hold in a self-directed IRA or brokerage account.

You need to think like a business owner and maximize the efficiency of each dollar. For example, if you have children in high school, you can hire them to work for you. According to Diane Kennedy, CPA, who runs www.taxloopholes.com, you can even pay your children a modeling fee for appearing in your brochures or company website. Earned income up to the standard deduction amount will be federally tax-free. A child can also take the money you pay them and contribute it to a Roth IRA or you can gift the amount to them and then contribute it to their Roth IRA (as long as the child has the earned income). Just four years of full Roth IRA contributions by a teenager will grow to over a million dollars by age 65 if the account averages a 10% return per year. Now that is giving something of value to your child.

HIRING AN ACCOUNTANT



HEALTH INSURANCE: WHAT WILL YOU DO?

If you decide to go independent, you become liable for your own health insurance. If you currently have health insurance, you can continue with the same coverage through a program called COBRA. By law, if you had health insurance with your previous employer, they are required to allow you to continue coverage for a set period of time. With COBRA, you pay the monthly costs associated with the insurance. COBRA gives you time to find an adequate replacement for insurance and can be canceled at any time.

One way to find cost-effective insurance is to get group rates by joining an organization. It could be the local Chamber of Commerce, alumni associations, your church, or for those over 50, perhaps join a group such as AARP (www.aarp.org) or the Freelancers Union (www.freelancersunion.org). Other websites to consider are the National Association for the Self-Employed (www.NASE.org) and the Small Business Service Bureau (www.sbsb.com). For some, you can also visit www.healthcare.gov to see if you qualify for lower costs.

Another organization to consider is the FPA (Financial Planning Association) which offers health insurance and other benefits to members. You should give serious consideration to joining an organization such as the FPA to help expand your business. Members also receive free continuing education credits for certain designations. You can also join their referral program that provides leads from individuals looking for financial advice. Throughout the year, the FPA is mentioned in publications such as "USA Today" with a toll-free number for individuals to call for inquiries. Those inquiries are then forwarded to members who participate in the referral program. You can contact the FPA at (800) 322-4237 or visit their website at www.onefpa.org.

Those in excellent health may consider high-deductible, low-premium policies and can shop for their own policies. You can compare a variety of options in your area at www.healthcare.gov. Additional resources for you to check for availability include www.ehealthinsurance.com, www.einsurance.com, and www.GoHealthinsurance.com. The National Association of Health Underwriters website (www.nahu.org) may be best if you want someone else to do the leg work, or you can go directly to insurers' websites for quotes. Avoid the smaller health coverage companies with multiple complaints.

You may consider a policy that works in conjunction with a health savings account, which may offer some tax benefits when you need to pay for out-of-pocket medical bills. One of the clearing firms we utilize, Pershing, offers the ability for advisors to establish HSA accounts.

For those with pre-existing conditions, many states have high-risk pool programs that can help. If you have been uninsured for six months, have

a pre-existing condition, and have been denied coverage, you may be eligible for insurance through a pre-existing condition insurance plan, called a PCIP. Every state is required to offer one. More details can be found at www.kff.org/statedata.

You may be able to set up a small business group plan. If you hire somebody, perhaps your spouse, you may be eligible to buy a small group insurance plan. This can also work for those with pre-existing conditions, as many states require health insurers to offer guaranteed issue group health insurance to small groups. You may need an insurance broker for this one.

Another alternative for finding affordable health care is to identify the best providers in your area. Next, contact those insurance companies and find out what organizations you might join to obtain group coverage through them. The true utopia for those with an insurance license is when you join an HMO or other carrier and also become the health insurance agent of record and receive ongoing commissions, which average roughly 4% of the premium.

IF YOU DECIDE TO GO INDEPENDENT, YOU BECOME LIABLE FOR YOUR OWN HEALTH INSURANCE.

“ TAKE CARE OF YOUR BODY. IT'S THE ONLY PLACE YOU HAVE TO LIVE. ”

~ Jim Rohn



GETTING STARTED WORKSHEET

So far, we have covered many of the basics. Now it is time to think about finances and expenses for your new office and business. The next couple of pages are devoted to making budgets, for both one-time expenses and monthly costs. This should give you a general idea about how much money it will take to run your business as an independent.

If you decide to Go Independent, you should have capital behind you. The first year is a transition period, as it will take time to transfer your book of business, print business cards and letterhead, set up your office, and get into the rhythm of your new firm. There will also be many one-time expenses. Generally, three months of operating capital and living expenses should provide the cushion you need to be comfortable with starting your business. You should not place yourself in a position where your investment advice is influenced by your need to generate immediate revenues. The successful independent advisor realizes this business is a marathon, not a sprint, and understands the value of keeping a client for many years. If funds are tight, you can also speak with broker/dealers about ways to structure your compensation in a way that still works for yourself and your broker/dealer. Another possible source of start-up capital is a small business loan. One specialist in this space, Live Oak Bank, is a FDIC insured bank with a national lending footprint focused on providing loans for acquisitions, successions, breakaway brokers, tuck-ins, and even operating and working capital for advisors. For more information, visit www.liveoakbank.com/advisor.

Part of the Going Independent process is completing a budget for your office. Here are some guidelines for one-time and monthly expenses:



GETTING STARTED WORKSHEET

Expense	Estimated Cost	Your Budget / Notes
Rent	Estimate 3 months to cover first, last, and security deposit	
FURNITURE		
Desks	\$300 - 3,500 each	
Chairs	\$50 - 500 each	
File Cabinets	\$75 - 500 each	
Other (plants / decorations)	Varies	
PHONE / INTERNET		
Phone Equipment	\$200 - \$300/workstation	
Installation Services	\$400 - \$700	
Scanner / Printer	\$300 - \$3000	
Computer	\$400 - \$1,500 each	
Copy Machine	\$500 - \$5,000	
Stationery	\$200 - \$400	
Business Cards	\$200	
Registration Fees	See worksheet in the Costs to Transfer Your Licenses section	
Legal Fees	\$500 - \$3,000	
Accounting Fees	\$400 - \$1,500	
Office Supplies	\$400	
Other	Varies	
Signage for office door or front of your office building	Varies	

MONTHLY EXPENSE WORKSHEET

Expense	Estimated Cost	Your Budget / Notes
Full time Secretary/Receptionist	\$1,600 - \$3,000	
Part time Secretary/Receptionist	\$400 - \$1,000	
Sales Assistant	\$1,700 - \$4,500	
Office Rent	\$500 - \$3,000	
Quote Service	\$75 - \$2,000	
Errors & Omissions Insurance	\$150 - \$350	
Utilities	\$100 - \$300	
Office Supplies	\$50 - \$100	
Service for Computer & Copier	\$10 - \$40 per machine	
Printing	\$25 - \$100	
Accounting Fees	\$50 - \$75	
Legal Fees	\$50 - \$100	
Postage	\$50 - \$300	
Health Insurance	\$500 - \$1,000/individual \$900 - \$2,000/family	
Office Cleaning Service	\$100 - \$200	
Advertising	2 - 5% of gross revenue	
Phone	\$75 - \$500	
Other	Varies	

COSTS TO TRANSFER YOUR LICENSE

Each firm has a different policy regarding the fees you are charged to become a new representative. Below is a list of standard State Registration and FINRA charges: Please note that fees are subject to change at any time upon state or FINRA discretion.

USE THESE WORKSHEETS TO HELP UNDERSTAND HOW MUCH MONEY IT WILL TAKE TO RUN YOUR BUSINESS AS AN INDEPENDENT.

State	BD Agent Initial Fee	IA Rep Renewal Fee	Branch Fee
Alabama	\$60.00	\$60.00	--
Alaska	\$75.00	\$75.00	--
Arizona	\$45.00	\$40.00	--
Arkansas	\$75.00	\$75.00	\$50.00
California	\$25.00	\$25.00	--
Colorado	\$12.00	\$12.00	--
Connecticut	\$100.00	\$100.00	\$100.00
Delaware	\$65.00	\$65.00	--
District of Columbia	\$45.00	\$45.00	--
Florida	\$50.00	\$50.00	\$100.00
Georgia	\$50.00	\$100.00	--
Hawaii	\$25.00	\$25.00	--
Idaho	\$50.00	\$30.00	--
Illinois	\$150.00	\$150.00	\$20.00
Indiana	\$25.00	\$25.00	--
Iowa	\$40.00	\$30.00	--
Kansas	\$60.00	\$60.00	--
Kentucky	\$50.00	\$50.00	--
Louisiana	\$60.00	\$0.00	--
Maine	\$50.00	\$25.00	\$50.00
Maryland	\$35.00	\$50.00	--
Massachusetts	\$75.00	\$50.00	--
Michigan	\$65.00	\$65.00	--
Minnesota	\$50.00	--	--
Mississippi	\$50.00	\$50.00	--
Missouri	\$50.00	\$50.00	--
Montana	\$50.00	\$50.00	--
Nebraska	\$40.00	\$40.00	--
Nevada	\$125.00	\$110.00	\$100.00
New Hampshire	\$130.00	\$100.00	--
New Jersey	\$60.00	\$50.00	--
New Mexico	\$50.00	\$50.00	--
New York	\$70.00	--	--
North Carolina	\$125.00	\$75.00	--
North Dakota	\$60.00	\$50.00	--
Ohio	\$60.00	\$35.00	--
Oklahoma	\$50.00	\$50.00	--
Oregon	\$60.00	\$50.00	--
Pennsylvania	\$125.00	\$110.00	--
Puerto Rico	\$130.00	\$150.00	--
Rhode Island	\$75.00	\$60.00	\$100.00
South Carolina	\$110.00	\$55.00	--
South Dakota	\$125.00	\$50.00	--
Tennessee	\$50.00	\$50.00	--
Texas	\$20.00	\$20.00	\$25.00
Utah	\$50.00	\$50.00	--
Vermont	\$60.00	\$55.00	\$100.00
Virgin Islands	\$50.00	\$50.00	\$100.00
Virginia	\$30.00	\$30.00	--
Washington	\$25.00	\$20.00	--
West Virginia	\$80.00	\$85.00	\$50.00
Wisconsin	\$80.00	\$80.00	\$80.00
Wyoming	\$35.00	--	--

MAKING THE MOVE

Complete the questions below and you will have a good idea of your start up registration costs to affiliate with your new broker/dealer. Fees will vary over time. For up-to-date fees, please visit: www.joincantella.com.

1. Total fees for states you wish to solicit business in (see rates above). \$ _____
 2. Transfer and Fingerprinting Fees
 - FINRA Registration fee = \$100
 - Exchange Registration Fee = \$55
 - FBI and FINRA Fingerprint fee = \$44.50
 \$ 199.50
 3. If there is a “yes” answer to a disclosure question on your U-4 (add \$110 for a FINRA disclosure fee) \$ _____
 4. If you plan to be a FINRA registered branch office, add in the \$95 FINRA fee here. \$ _____
 5. If your resident state also charges a branch office fee, add that amount in here. (see rates above) \$ _____
 6. If you plan on taking an exam, add that amount here (see rates below) \$ _____
 - Series 7 = \$305 Series 66 = \$155
 - Series 65 = \$165 Series 24 = \$120
 - Series 63 = \$125
- Total** \$ _____

Now that you have a better sense of finances, it is time to consider changing from your current firm to a new one. This section outlines how to make the transition and what to expect when you do.

It is important to prepare your business for the transition period and establish a foundation for your future. The first few months will be hectic as you transfer your book of business and learn the policies and procedures of your new broker/dealer. Along the way, you will be able to compare what Cantella provides with proposals from other broker/dealers you may be considering. We will be as objective as possible. Do we want you to join us? Absolutely, if we are a good match and going independent is right for you.

If you do go independent, understanding what you are facing and anticipating possible pitfalls before they occur will make your transition markedly easier. You should start preparing everything you need to switch to a new broker/dealer at least a month (preferably longer) before announcing your departure at your current firm. This is the time to evaluate options, develop an implementation strategy with your new firm, and fine-tune your business plan. I believe it was Sun Tzu in *The Art of War*, who said, “Every battle is won or lost before it is even fought.” The same can be said for the battle to retain your existing book of business.

If you have ever considered hiring a personal coach for your business, the few months prior to changing firms is an ideal time to do so. If you want to deliver over-the-top personalized service, your coach can provide you with ideas to help you achieve that goal and make a client’s choice of staying with you easier when you make the transition.

Prior to leaving, you should continue doing business as you have in the past. This will minimize suspicion that something unusual is happening with your business. The exception to this is you should increase communication with those customers whom you want to move with you. They will soon decide whether to transfer their accounts, and you increase your chances by providing exceptional customer service. Focus additional time and resources on the top 20% of your clients that provide 80% of your revenues.

Make sure you are doing all of the little things right. You wish every client a happy birthday and take them out to lunch if possible. You call men on their wedding anniversary dates to wish (remind) them happy anniversary (a few will love you for saving their butts on that one). You forward articles that are not from your current firm that might be of interest to clients and show that your brain is not tied to the output of your current broker/dealer. When a child gets admitted to a college, you send a sweatshirt or coffee mug to the parents or grandparents. You send hand-written thank you notes. Lots of them.

Do not tell anyone about your move. If word gets out, you could find yourself showing up to work with a locked office and a cardboard box of personal belongings waiting for you. You also give your firm a chance to dig up dirt on you and find a customer complaint. Save the bragging for after your transition and avoid any potential selling away liability. Many representatives think it best to test the waters and ask clients prior to leaving, but based on prior experience, this will hinder your probability of keeping clients. Consider limiting the conversations to something such as, “I’ll have exciting news for you next Friday!”

Have your office location finalized and establish a move-in date. There should be an overlap allowing you to continue working at your current broker/dealer while you install equipment and decorate your new office.

PREPARING TO LEAVE YOUR CURRENT BROKER/DEALER



THE MONTH BEFORE

Never resign until everything in the new office is functioning to your satisfaction. Phone systems, cable, and quote systems can take four to eight weeks to install. Give yourself lead time, especially on these items.

Have your staff in place prior to resigning from your current firm. If you are planning on keeping your current staff, there are a couple of issues to consider. One is a non-compete clause and your attorney should be able to address those concerns. Your attorney should review all aspects of your contract. The other is your support staff's willingness to accept change. In life we tend to fear what we do not know. Even though we can often improve our lives by accepting change, we keep doing the same things over and over again because of our comfort level. Make sure any staff members who move with you are committed to the challenge and a new way of doing business. As a business owner, you will have more control over your destiny and your success will be helped, not hindered, by having the right employees in place.

The following are some, but not all, of the things that need to be addressed before you start your new office:

- Have business cards and stationery printed. Do not rush to the printer without receiving prior approval from your compliance department. Failure to follow the rules of your new firm could result in expensive kindling for the fireplace.
- Order signage for your business. There is something to be said for those golden arches of McDonald's! On the flip side, think of the impression you get when you see a beat-up restaurant sign with misspelled words, chipped paint, and burnt out lights! Convey your, "This is the place for financial advice" message. Ensure all signage is approved by your new compliance department and then have them done by professionals.
- Have the letter you plan to send to all clients announcing your change of broker/dealer approved by your new compliance department (we can provide you with sample letters). The letter should include details as to why you are making the change of broker/dealer and how it will improve upon what you can provide for your clients. While doubling your pay is nice for you, it does not benefit your clients unless you plan to reduce the fees and commissions you charge or hire additional support staff to improve service. Your letter should convey the "What's in it for me?" from your customers' perspectives. With Cantella representatives, the message is easy to communicate when you tell clients about the extensive product selection, support, and freedom that come with your ability to carry accounts at three NYSE member firms.
- If you will be sending a press release to various publications, have the letter approved by the compliance department. Develop a list

of media publications in your marketing area to announce your new affiliation and business address as soon as it becomes official. At Cantella, our public relations firm contacts all local publications with your change announcement.

- Have a professional color and black and white photograph taken for press releases. If you plan to utilize the press extensively, in addition to the standard photo of your face, have a photo available of you in your working environment. Make it easy for the media to work with you.
- If you will be placing any advertisements in local publications, have them approved by the compliance department. Even a simple Yellow Pages ad must be approved. The easy way to remember this rule is it will be seen by more than a few people, consider it advertising and compliance needs to approve it.
- Set up your compliance and customer files in accordance with your new broker/dealer's requirements. Ask for the firm's compliance manual and a sample of a branch audit.
- Have your Form U-4 completed and signed. Your new broker/dealer needs to supply you with a U-4 application and their fingerprint cards, as they are now bar coded for each firm. Your new firm may be able to complete almost all of your U-4 form for you. A local police station can process your cards and it is required any time you change a broker/dealer.
- If you do not have a "Yes" answer on your U-4, you may be able to process a Temporary Agent Transfer (TAT) and start doing business the same day you resign from your broker/dealer.
- If you have a "Yes" answer on your U-4, prepare for some down time. Prior to FINRA granting approval to transact business with your new broker/dealer, they must review your U-4 history. You also need approval from the regulators of each state in which you transact business. Your home state is critical in this process, as you are essentially out of business until FINRA and your home state approve you. The review process can range from a few days to a few weeks. There are some states that have made transferring with a "Yes" answer rather difficult. If you have a few "Yes" answers on your U-4, especially if they occurred while working at your current broker/dealer, you are wise to hire an attorney. Consider the risk of changing and not getting state or FINRA approval at all. If you have no new entries since the last time you changed broker/dealers, the process tends to be quicker, as there is no new reason to deny your registration.
- Sign the independent representative broker/dealer agreement that outlines the terms of your employment with your new broker/dealer.
- Send your new broker/dealer a copy of your insurance license(s) and a list of the insurance companies with whom you want to be re-appointed.

A GOAL WITHOUT A PLAN IS JUST A WISH.

~ Antoine de Saint-Exupery

“WHEN YOU TRULY BELIEVE IN WHAT YOU ARE DOING, IT SHOWS.

AND IT PAYS.

WINNERS IN LIFE ARE THOSE WHO ARE EXCITED ABOUT WHERE THEY'RE GOING.

” ~ Dale Carnegie

- The best way to resign is shortly after the markets close on a Friday. A simple, “I resign from XYZ Corp., effective immediately. I thank you for the opportunity to work with XYZ Corp.” is all that is necessary. It is a good idea to immediately forward a copy of your resignation letter to your new broker/dealer. Resigning at the end of the week gives you an entire weekend head start on your former broker/dealer to get your transfer forms in the mail. This also gives you time to speak with all of your customers before your branch manager has a chance to reassign your accounts. Some reps have timed their resignation just before the branch manager goes on vacation. This would be ideal for “shark fest” environments where your book will be attacked. You should weigh the pros and cons of your exit strategy, giving weight to prior experiences of others whom have left the firm. Your relationship with a branch manager can significantly impact your transition and if it can be done so positively, consider doing so. You have little to gain by making your exit adversarial.
- Ensure that you already have access to your new broker/dealer’s systems. Have rep ID numbers assigned, access to client accounts at the firm(s) where you will be carrying accounts, and a password to your new email address and to the company’s intranet to review memos and print forms. It helps to see what your clients will see when they access their accounts. Prior to joining, take time to learn the new firm’s system. Ask for a WebEx demo before you join.
- Have a list of the key home office personnel you can talk to throughout your transition. Your new broker/dealer should provide a dedicated transition team, but equally important, make sure you have been introduced to the operations employees who will help you with questions such as the status of your account transfers.
- Have a good contact management system in place. This will help you keep track of all communications with customers and follow the paper trail of new account and transfer forms in the beginning. The first step is to check if your current contact management system can be utilized with your new firm. It may be that your current firm uses proprietary software, which means you need to start over with a new system. If so, you want to work out any bugs and become familiar with the new system prior to resigning.
- Review the firm’s training materials with any support staff that you hire. At Cantella, we provide a Branch Best Practice’s checklist to help familiarize employees with our systems. We also ensure that assistants are set up with training on the firm’s intranet and account access screens.

Most preparation for your transition should be completed prior to actually joining your new firm. Once you are registered, a primary focus should be transferring accounts and keeping in touch with clients.

- Send all of your clients a Welcome Kit, which includes a letter informing them of your affiliation with your new broker/dealer, as well as all necessary account forms. Your new firm should have sample transition letters you can customize for your clientele.
- Try to see as many A-list clients as possible in person during the first week. Change is scary for them, too.
- Process all new account and transfer forms. The sooner you transfer accounts in, the better. Follow up on transfer requests for any assets held directly at fund and insurance companies. Our experience has been that change of broker/dealer requests receive lower priority processing attention than applications with checks attached to them. Your former firm will continue to receive trail commissions until the change of broker/dealer is processed. Most firms have Account Transfer Reports you can access to view the status of your brokerage account transfers.
- Regularly check your new email address and immediately stop using your old one. You will not be able to communicate broker/dealer related matters via a personal email address for compliance purposes.

You will probably work harder than you have in years during the first few months. You may feel like the head of triage in an emergency room, deciding where to expend your resources. Remember: It is a marathon, not a sprint. Working hard is expected during this time. Working smart makes it more manageable. Staying focused on accomplishing the critical tasks helps your practice return to normal as soon as possible.

Below are some hiccups we sometimes experience during the transition:

- Some clients use their checkbooks or debit cards constantly, so you do not want to disrupt the process. When you submit an ACAT, the old firm immediately shuts down the checking account, debit card, and pending transactions may be declined. To get around this, have two accounts going at once until all of the pending transactions are processed and the client has checks and a debit card for the new account. Do not ACAT the account immediately, but have the client write a check to the new account and complete an ACAT form (you will need it later). If you need to sell a position, you can DTC free deliver the position into the new account. As soon as the client gets the new checks and debit cards, have the client start using them. Once the activity has stopped on the old account and outstanding checks have cleared, you can transfer the remaining balance to the new broker/dealer using the ACAT you have on file.

AS A NEW REPRESENTATIVE

AREAS OF CONCERN DURING THE TRANSITION

BEFORE YOU
ACT, LISTEN.

BEFORE YOU
REACT, THINK.

BEFORE YOU
SPEND, EARN.

BEFORE YOU
CRITICIZE, WAIT.

BEFORE YOU
PRAY, FORGIVE.

BEFORE YOU
QUIT, TRY.

~ William Arthur Ward

- Clients using automated bill paying need to set up payment processing again at the new firm. This requires re-entering data from various companies into the system. If you are not currently utilizing automated bill paying services, it is a great way to increase the reliance of your clients on you to help manage their wealth.
- Some clients utilize systematic deposits or withdrawals for investing or to pay their bills. Make sure you correctly establish the new account to meet the needs of your client.
- Product A = Product A. If you have, for example, a separately managed account and move the account over, can the manager still be utilized? If not, this could create tax implications for your client as you move to a new manager. This is why it is important in the early stages of your transition to review all products and services and find a viable solution with your new broker/dealer.
- Some items you might want, but may not be allowed to take with you, include prior year's 1099 forms and year-end values of IRA accounts for clients required to take minimum distributions. Make sure you have a contact number for the client services department at your old firm. Most broker/dealers will not provide you access to prior information or forms you need, but you can do a conference call with both parties to ensure the client receives what they need on the first call.
- Representatives tend to underestimate the amount of time and effort it takes to prepare forms and transfer accounts. It is a labor-intensive task. We find it is best to complete forms with clients on the phone and then mail or email them. Doing so avoids problems, such as the client that marks investment objectives as Preservation of Capital, yet they own stocks. By completing forms before mailing, you avoid errors, as you only need signatures and a recent customer statement.
- Failing to invest time to learn company intranets will cost you. For example, Cantella has every form available online through an easy to navigate search engine. If you fail to take the time to learn the new system, you create potential for inefficiencies. If you fail to review transition manuals, you may find yourself working hard, but not smart. Make it a goal to have all forms completed correctly.
- Ready, shoot, aim is not the preferred course of action. Representatives sometimes resign from their current firm based on an emotional decision and lack the time one needs to design an effective plan of attack. Be a Boy Scout – Be Prepared.
- Relying on doing everything after you resign can set you back. Most of your transition items, such as printing business cards and stationery, installing phones, and learning new systems, should ideally be done prior to leaving your current firm.

The last part about making the switch to independence is transferring your book of business. This can be tricky depending on what type of office environment you have now. Below are some scenarios to use as a guide to determine what your own switch may be like.

If you are leaving a wirehouse, your belongings stay there. The opinion of the major wirehouses is that clients are the property of the firm, not the representative. What happens to your book of business depends on the firm you work for, your contract, and also your former associates. Your book will in all likelihood be distributed by your branch manager, and divided up among the other reps in your office. It is possible you will become the victim of a “shark fest” with brokers attacking your book. Brokers may go through your book of business and contact all of your clients the moment they receive their allocation of accounts. It is not uncommon for a branch manager to provide bonus payouts for a few months to anyone who generates revenues with the book you leave behind. I have heard many a story about brokers alluding to jail time and other misrepresentations as to why a rep is no longer with a firm. The good news is that these tactics are unprofessional and, while frustrating, they will help, not hurt you in the long run.

Some firms make leaving difficult in order to intimidate the remaining reps. It is in the best interest of a wirehouse to create anxiety among current employees who are considering leaving to go independent. They want you to be nervous and remain content keeping only 30 to 40 percent of your commissions. If you have a non-compete agreement (if you work in a wirehouse, you probably do), it is advisable to hire an attorney who already has plenty of experience in this field. The rulings are clear that every person has a right to make a living and no one can be stopped from affiliating with another broker/dealer. The question of “Who owns the clients?” can become an issue and your current broker/dealer may try to make it difficult for clients to move with you. In the end, the clients decide who they want to manage their money. Your attorney can advise you how best to proceed regarding this matter.

Many firms are part of what is known as The Broker Protocol, which was established in 2004. The wirehouses became tired of constantly suing each other whenever an advisor left, as they realized that the only people profiting from endless court time were the attorneys on both sides. It was essentially a truce between major firms. Quickly, independent firms, who typically do not look at clients as being owned by the firm, but rather the advisor, had little to lose and jumped on board to join the protocol. The members of the protocol agree not to sue as long as firms follow the provisions of the protocol. That being said, the protocol is not a complete shield for advisors to avoid getting sued by their former firms.

YOUR BOOK OF BUSINESS



“ YOU GOT TO BE CAREFUL IF YOU DON'T KNOW WHERE YOU'RE GOING, BECAUSE YOU MIGHT NOT GET THERE.

~ Yogi Berra

Even if you decide to stay at your current firm, you should have what some advisors call their “overnight bag.” The reality is: Despite contracts that might provide comfort, we are essentially employees at will. Our affiliation can be terminated without warning. If your current firm is part of the protocol, always have a protocol spread sheet at home. Also, have something tangible that shows your production. If your firm will let you, it is best to have your cell phone in your own name. You should have a copy of your employment agreement.

First, confirm that the firm you are leaving and the one you are joining are both part of the protocol. If so, you can make a list that includes client names, addresses, phone numbers, email addresses, and the title of the account that you serviced. Taking any additional information can expose you to possible litigation, as well as possible fines or penalties from FINRA. When you resign from your current firm, you sign a resignation letter and include a list to your prior firm that details the information you are taking for the accounts you serviced, along with their account numbers. You then provide a list with the information allowed by the protocol that you plan to retain. Your list cannot include account numbers. You cannot contact clients until you are fully employed by your new firm. Also, other advisors of your new firm are not allowed to contact clients.

Some firms and their brokers have more class than others when an advisor leaves. The advisors in the office will respect your decision to go independent and try not to interfere with your transfer. They understand your personal relationship with your clients, and out of respect for you, will not call your clients in an attempt to take your business. If other brokers have left your office, it should provide a guideline for expectations when you leave. Your game plan should take into consideration the way your clients may be treated by your current broker/dealer.

I played sports and my best coaches emphasized the fundamentals over and over again. Here is my attempt. Remember: According to current regulation, all account paperwork and private client information are your current firm's property. You cannot take any private client information with you without written permission from the customer. If you remove any of your account books before you leave, you might be sued for theft by your former broker/dealer, and/or pursued by the regulators for breaching Regulation S-P, both of which would likely result in you getting a “Yes” answer on your U-4.

We had one client complain when a new representative sent out a partially-completed transfer form that included the client's social security number. The client called the state securities division wondering why the advisor had access to such information after leaving his prior firm. The advisor found himself in trouble with the regulators. This individual had been a client of that particular rep for several years prior to the rep joining Cantella.

Changing your broker/dealer is an ideal time to re-evaluate your current book of business. We all have a few accounts that provide the majority of our headaches. Consider the value of your time and what you receive in return, both financially and in satisfaction. If someone causes major frustration for minimal revenue, it is probably in your best long-term interest to have them served by someone else. Changing is a great opportunity to match your current business with the vision of your company. While it is often stressful to fire a client under normal circumstances, it is easy when you change firms: Do not contact them.

Everyone asks himself or herself the question, “What if my clients won't leave and come with me?” The truth is that not all of them will. It depends on the relationship you have developed with your clientele. If they trust you and feel that you have their best interests at heart, they will probably transfer with you. The bulk of your clients do business with you and not the firm you work for. The firm does not understand their needs and goals—you do. Our experience has been that the vast majority of clients will follow you to your new firm. Those who stay behind were accounts, not relationships.

That being said, do not give up on the clients who do not immediately join you. A few may say they want to see how things work out with the new rep assigned to their account. Be persistent. Earn back their business with service. You have a longer relationship with the client and continuous provision of the best possible service should bring their business back to you.

You will need to transfer your assets one account at a time with a signed affirmative response from your customers via an ACAT form for brokerage accounts or a Change of Dealer for direct accounts. An account transfer form should never be dated before you resign from your broker/dealer, as it can be used against you as evidence of selling away. Wait until you leave a firm before making any solicitations or completing forms. The once-common negative response letters are rarely utilized unless a firm becomes insolvent. All firms require some type of identity verification under the PATRIOT Act (often a driver's license number, state of issue, and expiration date is sufficient). Immediately after joining your new firm, meet with as many clients as possible to discuss your plans and the benefits they will receive working with you as an independent business owner.

TRANSFERRING YOUR BOOK

We hope this book provides a detailed overview to help you make an educated decision about Going Independent. There is no harm in staying where you are if it is right for you. If so, you can get back to work with a better feeling that you are in the right place. If you decide to continue your pursuit towards Independence, we hope the time you invest reading the book helps you in the process to now select the broker/dealer or RIA Clearing platform that is best for you as you prepare for your new venture.

The ideal business relationship is one that works for everyone. For the right representatives, Cantella offers that combination, and we are interested in establishing long-term relationships. We dance with many, but marry few, as we are not right for everyone. We want you to succeed, whether it is with us or someone else. The worst thing you can do is move to a new broker/dealer and then find out you are not a good match. Do your homework and find the one that is right for you.

If you have any questions, please do not hesitate to call me directly at **(617) 224-1408**. We thank you for investing the time to learn about Going Independent.

Sincerely,

A handwritten signature in black ink, appearing to read "Jim Freeman". The signature is stylized with a large initial "J" and "F".

Jim Freeman
National Sales Manager